Docket:	:	A.09-07-001
Exhibit Number	:	
Commissioner	:	John Bohn
Admin. Law Judge	:	Jeffrey O' Donnell
DRA Project Mgr.	:	Patrick Hoglund

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

REPORT ON THE RESULTS OF OPERATIONS IN LOS ALTOS-SUBURBAN DISTRICT OF CALIFORNIA WATER SERVICE COMPANY

Test Year 2011 and
Escalation Years 2012 and 2013
Application 09-07-001

For authority to increase water rates located in its
Los Altos-Suburban District serving Los Altos
and vicinity, Santa Clara County.

San Francisco, California
February 17, 2010

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MEMORANDUM

The Division of Ratepayer Advocates ("DRA") of the California Public Utilities Commission ("Commission") prepared this Report in California Water Service Company's ("CWS") rate case proceeding A.09-07-001. In this docket, the Applicant requests an order for authorization to increase rates charged for water service by $2,357,500 or 10.4 % in Test year 2011; by $705,900 or 2.8% in Escalation year 2012; and by $705,900 or 2.8% in Escalation year 2013 in its Los Altos-Suburban District service area. The applicant requests adoption of a rate of return of 8.58% from D. 09-05-019. DRA presents its analysis and recommendations associated with the Applicant's request in this Report.

Patrick Hoglund serves as DRA's project coordinator in this review, and is responsible for the overall coordination in the preparation of this report. Appendix A contains witnesses' prepared qualifications and testimony.

DRA's reports on payroll, conservation expenses and special requests are included under separate Reports.

DRA's Legal Counsels for this case are Selina Shek, Allison Brown, and Hien Vo.

EXECUTIVE SUMMARY

CWS requests increasing rates by 10.4% in Test Year 2011 and 2.8% in Escalation Year 2012, whereas DRA recommends a decrease of 0.2% in Test Year 2011 and inflationary increases for the Escalation Years.

Key Recommendations

DRA recommends that CWS' requested rate of return of 8.58% be adopted in this proceeding.

DRA's recommendations are based on total higher sales (Chapter 2), lower estimates of Operation and Maintenance expenses (Chapter 3), lower estimates of Administrative and General expenses (Chapter 4), lower Plant additions (Chapter 7) and lower Ratebase (Chapter 9).

DRA addresses its recommended treatment of CWS' 30 Special Requests ("SR") in a separate report.

List of DRA Witnesses and Respective Chapters

Chapter Number	Description	Witness
-	Executive Summary	
1	Overview and Policy Introduction and Summary of Earnings	Patrick Hoglund
2	Water Consumption and Operating Revenues	Lisa Bilir Zachary Burt
3	Operations and Maintenance (except Payroll) Expenses	Pat Ma
4	Administrative & General (except Payroll & Conservation) Expenses	Cleason Willis Jose Cabrera
5	Taxes Other Than Income	Jerry Oh
6	Income Taxes	Jerry Oh
7	Utility Plant in Service	Isaiah Larsen
8	Depreciation Reserve and Depreciation Expense	Isaiah Larsen
9	Ratebase N/G multiplier	Isaiah Larsen Richard Rauschmeier
10	Customer Service	Toni Canova
11	Rate Design	Lisa Bilir
12	Water Quality	Pat Ma
13	Step Rate Increase	Patrick Hoglund

CHAPTER 1: OVERVIEW AND POLICY

A. INTRODUCTION

This Report sets forth DRA's analysis and recommendations for A. 09-07-001, CWS' general rate increase request for Test Year 2011 and Escalation Years 2012 and 2013.

B. SUMMARY OF RECOMMENDATIONS

Tables 1-1 through 1-3 of the Summary of Earnings compare the results of operations for Test Year 2011 including revenues, expenses, taxes and ratebase.

C. DISCUSSION

CWS requests the total revenues as follows:

Year	Amount of Increase	Percent
2011	$2,357,500	10.4%
2012	$ 705,900	2.8%
2013	$ 705,900	2.8%

CWS estimates that its proposed rates in the Application will produce revenues providing the following returns:

Year	Return on Rate Base	Return on Equity
2011	8.58%	10.2%
2012	8.58%	10.2%
2013	8.58%	10.2%

D. CONCLUSION

DRA recommends a revenue decrease for the Test Year as follows (Escalation Years 2012 and 2013 are covered in Chapter 13):

Year	Amount of Decrease	Percent
2011	$35,200	0.2%

D.08-07-008 authorized the last general rate increase for CWS in A. 07-07-001, resulting in a rate of return on rate base of 8.66% in 2008-2009. Present rates in this report are based on Advice Letter No.1878-A, which became effective August 25, 1008, as authorized by D.08-07-008.

A comparison of DRA and CWS' estimates for rate of return on rate base for the Test Year 2011 at present and the utility's proposed rates is shown below:

	RATE OF RETURN		
	DRA	CWS	Diff
Present Rates	8.65%	4.50%	-4.15%
Proposed Rates	13.39%	8.58%	-4.81%

TABLE 1-1

CALIFORNIA WATER SERVICE COMPANY
LOS ALTOS-SUBURBAN DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2011

(AT PRESENT RATES)

Item	DRA Estimate	CWS Estimate	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	22,908.2	22,701.1	(207.1)	-0.9%
Operating expenses:				
Operation & Maintenance	13,135.8	13,841.6	705.8	5.4%
Administrative & General	1,316.5	1,452.2	135.7	10.3%
G. O. Prorated Expense	2,337.3	3,149.9	812.6	34.8%
Dep'n & Amortization	1,517.0	1,581.1	64.1	4.2%
Taxes other than income	776.0	826.0	50.0	6.4%
State Corp. Franchise Tax	240.0	62.3	(177.7)	-74.1%
Federal Income Tax	938.5	265.8	(672.8)	-71.7%
Total operating exp.	20,261.1	21,178.8	917.7	4.5%
Net operating revenue	2,647.1	1,522.3	(1,124.8)	-42.5%
Rate base	30,608.4	33,858.2	3,249.8	10.6%
Return on rate base	8.65%	4.50%	-4.15%	-48.0%

TABLE 1-2

CALIFORNIA WATER SERVICE COMPANY
LOS ALTOS-SUBURBAN DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2011

(AT UTILITY PROPOSED RATES)

Item	DRA Estimate	CWS Estimate	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	25,355.2	25,058.6	(296.6)	-1.2%
Operating expenses:				
Operation & Maintenance	13,138.5	13,844.2	705.7	5.4%
Administrative & General	1,316.5	1,452.2	135.7	10.3%
G. O. Prorated Expense	2,337.3	3,149.9	812.6	34.8%
Dep'n & Amortization	1,517.0	1,581.1	64.1	4.2%
Taxes other than income	806.9	855.8	48.9	6.1%
State Corp. Franchise Tax	453.3	267.8	(185.5)	-40.9%
Federal Income Tax	1,685.7	1,002.5	(683.2)	-40.5%
Total operating exp.	21,255.2	22,153.4	898.2	4.2%
Net operating revenue	4,100.0	2,905.2	(1,194.8)	-29.1%
Rate base	30,608.4	33,858.2	3,249.7	10.6%
Return on rate base	13.39%	8.58%	-4.81%	-35.9%

TABLE 1-3

CALIFORNIA WATER SERVICE COMPANY
LOS ALTOS-SUBURBAN DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2011

(DRA ESTIMATES)

Item	DRA Est. @ Present Rates	@ Rates Proposed by DRA	Proposed Exceeds Present Amount	%
	(Thousands of $)			
Operating revenues	22,908.2	22,873.0	(35.2)	-0.2%
Operating expenses:				
Operation & Maintenance	13,135.8	13,135.8	(0.0)	0.0%
Administrative & General	1,316.5	1,316.1	(0.4)	0.0%
G. O. Prorated Expense	2,337.3	2,337.3	0.0	0.0%
Dep'n & Amortization	1,517.0	1,517.0	0.0	0.0%
Taxes other than income	776.0	776.0	0.0	0.0%
State Corp. Franchise Tax	240.0	236.9	(3.1)	-1.3%
Federal Income Tax	938.5	927.8	(10.7)	-1.1%
Total operating exp.	20,261.1	20,246.8	(14.3)	-0.1%
Net operating revenue	2,647.1	2,626.2	(20.9)	-0.8%
Rate base	30,608.4	30,608.4	0.0	0.0%
1 Return on rate base	8.65%	8.58%	-0.07%	-0.8%

CHAPTER 2: WATER CONSUMPTION AND OPERATING REVENUES

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations regarding the forecasted number of customers, water sales and operating revenues for CWS' Los Altos district. Los Altos had an average of 18,599 service connections in 2008; the Los Altos district includes the City of Los Altos and vicinity, in Santa Clara County. DRA reviewed CWS' data responses, testimony, application, and workpapers before formulating its own estimates.

B. SUMMARY OF RECOMMENDATIONS

DRA adhered to the methods outlined in the Rate Case Plan ("RCP") in DRA's analysis of sales forecast and revenues. Whereas, CWS' sales forecast method differed from the RCP. Appendix A to Chapter 2 for DRA's Bakersfield report provides a detailed explanation of DRA's sales forecast and revenue methods. The Commission should uphold the methods outlined in the RCP by adopting DRA's recommendations presented in this report.

1) Average Active Service Connections

The Commission should adopt DRA's recommended number of service connections. Although CWS and DRA agree on the forecasted change in the number of customers, CWS' workpapers erroneously calculated the projected number of customers for 2009 starting with end of year ("EOY") 2007 total customers, rather than EOY 2008 total customers for Residential, Business and Multifamily customer classes. DRA corrected this calculation.

2) Metered Sales and Supply

The Commission should require CWS to use the method proposed by DRA for residential and business customers, in accordance with the RCP, going

forward, and should also adopt DRA's estimates for metered sales and supply in this case. Table 2-1 at the end of this chapter illustrates DRA and CWS' proposed sales per average customer for each customer class. DRA uses the same general methodology as CWS to estimate multiple regression equations in accordance with the RCP and the "New Committee Method" ("NCM"). As is outlined in the NCM, rain, temperature and time are included in the regression model, where possible. The primary difference between DRA and CWS' forecasts are that CWS used the regression equations to calculate weather-adjusted recorded sales from 2008 and used this as its estimated sales for 2011. DRA used the regression equations to calculate forecasted sales for 2011 and 2012, based on the 30-year monthly average rain and temperature, in accordance with the RCP.[1]

3) Operating Revenues

The Commission should adopt DRA's estimates for operating revenues. DRA uses the same method as CWS to calculate operating revenues, although DRA presents the operating revenues differently for illustrative purposes (see Appendix A to Chapter 2 for DRA's Bakersfield report in section B. 1. and B. 2. for the complete explanation).

4) Unaccounted for Water

CWS estimates 5.76% unaccounted for water in Los Altos based on the five-year average recorded unaccounted for water and DRA agrees.

[1] D.07-05-062, Appendix A – Rate Case Plan and Minimum Data Requirements for Class A Water Utilities General Rate Applications, p. A-23, footnote 4, (B) "Use 30-year average for forecast values for temperature and rain"

C. DISCUSSION

1) Average Active Service Connections

Customer growth is the forecasted growth of a customer base in a given area. CWS and DRA use customer growth to project revenues for 2011-2012. The RCP, adopted in D.07-05-062 requires the number of customers to be forecast using a five-year average of the change in the number of customers by customer class, unless an unusual event occurs, in which case an adjustment to the five-year average may be made.[2] Table 2-2 and 2-3 at the end of this chapter summarize DRA and CWS' proposed average number of customers for each customer class in 2011 and 2012, respectively.

(a) Residential, Business, Multifamily, Public Authority, Industrial, and Other

For all customer classes, CWS proposes to forecast the number of customers using the five-year (2004-2008) average of the change in the number of customers by customer class. DRA agrees. However, CWS' workpapers erroneously calculated the projected number of customers for 2009 through 2012 starting with recorded end of year ("EOY") 2007 total customers, rather than recorded EOY 2008 total customers for the Residential, Business and Multifamily customer classes. DRA corrected this calculation and that accounts for the differences between DRA and CWS' projections for the number of customers in the Residential, Business, and Multifamily customer classes.

2) Metered Sales and Supply

Table 2-4 and 2-5 at the end of this chapter summarize DRA and CWS' proposed metered and flat rate sales in Los Altos for each customer class in 2011

[2] D.07-05-062, Appendix A: RCP, p. A-23, footnote 4.

and 2012, respectively.[3] DRA removed CWS' 1.5% conservation adjustment to consumption in 2012 and the reasons are described in Appendix A to the Bakersfield report, section A. 4.

(a) Residential

CWS' proposes to use the modified unconstrained regression model, with several monthly temperature variables and the time variable dropped and an autoregressive term. CWS dropped these variables due to the poor statistical confidence estimated for them. For the same reason, DRA instead proposes using the modified constrained model (including temperature and rain but not time). DRA found good statistical confidence for all variables under this model. In addition, DRA used its proposed regression equation to forecast sales, while CWS used its proposed regression model to weather-normalize 2008 recorded sales. Workpaper Revenue-001 shows the regression model that DRA chose. The following table summarizes DRA and CWS' recommendations:

Table 2-a: forecasted sales (ccf[4]/service)

	CWS	DRA	% difference
2011	272.2	268.7	-1.3%
2012	268.1	268.7	0.2%

(b) Business

CWS' proposes to use the modified unconstrained regression model, with two monthly temperature variables and the time variable dropped, and an autoregressive term. CWS dropped these variables due to the poor statistical confidence estimated for them. For the same reason, DRA instead proposes using the modified constrained model (including temperature and rain but not time).

[3] If DRA's sales forecast combined with DRA's other recommendations leads to higher bill increases than CWS presented in its notices to customers, DRA recommends that the total bill increases should be capped at CWS' proposed levels.

[4] 100 cubic feet

DRA found good statistical confidence for all variables under this model. In addition, DRA used its proposed regression equation to forecast sales, while CWS used its proposed regression model to weather-normalize 2008 recorded sales. Workpaper Revenue-001 shows the regression model that DRA chose. Table 2-b below summarizes DRA and CWS' recommendations for sales per service for business customers:

Table 2-b: forecasted sales (ccf/service)

	CWS	DRA	% difference
2011	971.4	991.1	2.0%
2012	956.8	991.1	3.6%

(c) Multifamily

Multifamily customers accounted for 5.10%[5] of metered sales for the Los Altos district in 2008. As CWS notes, the number of customers in this customer class changed from 119 at the EOY 2007 to 151 at the EOY 2008. Because of this change in the number of customers, CWS proposes to use 2008 sales per customer (2,404.1 ccf/service[6]) to project future use. While it is possible that the new customers in this customer class use significantly less water per customer, the use of a single year of data when a lot of customer reclassifications were occurring could underestimate the sales in this class.[7] A substantial underestimate of the sales forecast could lead to rates that are too high and ultimately this customer class could overpay for water service because WRAM overcollections are distributed to all customer classes, not just to the customer classes that overpaid. DRA ruled out the use of the regression models for this customer class because of

[5] Calculated from data in CWS' Table 4-C.

[6] See "Los Altos_exp_July_2009" Workpaper 4-D1, cells L:27 thru L:29, however, in the same workpaper, cell P:21, CWS reports a different usage for 2008 (336.1 ccf/customer). It is not clear why these two numbers differ.

[7] For example, if the customers were added to this customer class in August, and their sales only contributed to total sales for 4 months, while the average is calculated based on this number of customers for the entire year, this could underestimate sales per customer.

poor statistics calculated in the unconstrained and constrained model. There is not enough evidence to exclude the 2008 sales data, however, to address the possibility of underestimating sales for this customer class, while still taking 2008 reductions into account, DRA proposes to forecast sales using the five-year average of sales in this customer class (2,620.9 ccf/service). This recommendation leads to an overall difference between DRA and CWS of 9.0% for the Multifamily customer class.

Table 2-c: forecasted sales (ccf/service)

	CWS	DRA	% difference
2011	2,404.1	2,620.9	9.0%
2012	2,368.0	2,620.9	10.7%

(d) Industrial

CWS proposes using the average sales for the last five years to forecast future sales. For the Industrial customer class, DRA found poor statistical confidence in both the unconstrained and constrained models. DRA agrees with CWS' proposed methodology for this customer class.

Table 2-d: forecasted sales (Kccf / Industrial customer class)[8]

	CWS	DRA	% difference
2011	15.3	15.3	0.0%
2012	15.0	15.3	1.5%

(e) Public Authority

Public Authority customers in the Los Altos district accounted for 4.96% of metered sales in 2008. CWS' proposes to use the modified unconstrained regression model, with several monthly temperature variables and the time variable dropped. CWS dropped these variables due to the poor statistical

[8] The numbers in Table 2-d differ from the numbers in Table 2-1 because Table 2-d illustrates sales for the entire customer class, while Table 2-1 illustrates sales per average customer within each customer class. DRA and CWS forecasted sales for Industrial, Public Authority, and Other customer classes for the entire customer class, rather than for an average customer.

confidence estimated for them. For the same reason, DRA instead proposes using the modified constrained model (including temperature and rain but not time). DRA found good statistical confidence for all variables under this model. In addition, DRA used its proposed regression equation to forecast sales, while CWS used its proposed regression model to weather-normalize 2008 recorded sales. Workpaper Revenue-001 shows the regression model that DRA chose. Table 2-e below compares DRA and CWS' forecasted sales for the Public Authority customer class.

Table 2-e: forecasted sales (Kccf)[9]

	CWS	DRA	% difference
2011	330.9	284.8	-13.9%
2012	325.9	284.8	-12.6%

(f) Other

DRA agrees with CWS' proposed method to use the five-year average sales for the Other customer class.

3) Operating Revenue

Tables 2-6 and 2-7 at the end of this chapter summarize DRA and CWS' forecasted operating revenue at present rates in 2011, at CWS proposed rates in 2011 and at present rates in 2012, respectively.

(a) Residential

CWS calculates operating revenue for metered residential customers by (1) taking the sum of estimated quantity revenues calculated for each meter size, for each month and for each tier of the increasing block rate design based on three-

[9] The numbers in Table 2-e differ from the numbers in Table 2-1 because Table 2-e illustrates sales for the entire customer class, while Table 2-1 illustrates sales per average customer within each customer class. DRA and CWS forecasted sales for Industrial, Public Authority, and Other customer classes for the entire customer class, rather than for an average customer.

year average sales patterns and (2) adding this to the estimated service charge revenues, calculated by taking the average number of customers each year and multiplying it by the service charge. CWS' method is outlined in detail in Appendix A of Chapter 2 in DRA's Bakersfield Report. DRA does not recommend any changes to this method.

(b) Business, Multifamily, Public Authority, Industrial and Other

CWS calculates operating revenues for Business, Multifamily, Public Authority, Industrial, and Other customers by (1) taking the sum of estimated quantity revenues for each meter size, for each month based on three-year average sales patterns and (2) adding the quantity revenues to the estimated service charge revenues, calculated by multiplying the forecasted average number of customers by the meter charges. CWS's method is outlined in detail in Appendix A to Chapter 2 of DRA's Bakersfield Report. DRA does not recommend any changes to this method.

4) Unaccounted for Water

CWS estimates 5.76% unaccounted for water in Los Altos based on a five-year average of the percentage of unaccounted for water from 2004-08. DRA accepts the proposed unaccounted for water estimate.

D. CONCLUSION

1) Average Active Service Connections

The Commission should adopt DRA's recommended number of service connections.

2) Metered Sales and Supply

DRA recommends adherence to the RCP and NCM for forecasting metered sales and supply and recommends that the Commission adopt DRA's forecasted sales estimates and require CWS to use the method proposed by DRA for residential and business customers going forward.

3) Operating Revenues

DRA accepts CWS' method for calculating operating revenues, with the following modifications for illustrative purposes: for all customer classes, DRA used the present rates given by CWS at the time it filed the GRC application to illustrate Operating Revenues at Present Rates for 2011 and 2012. Also, DRA used the proposed rates from CWS' GRC application filed in July 2009 to calculate Operating Revenues at Proposed Rates. Appendix A to Chapter 2 for DRA's Bakersfield report in section B. 1. and B. 2. provides a detailed explanation.

4) Unaccounted for Water

CWS estimates 5.76% unaccounted for water in Los Altos and DRA agrees.

TABLE 2-1

CALIFORNIA WATER SERVICE COMPANY
LOS ALTOS-SUBURBAN DISTRICT
WATER SALES PER AVERAGE CUSTOMER

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(CCF/CONN./YR)			
Residential	268.7	272.2	3.5	1.3%
Business	991.1	971.4	(19.7)	-2.0%
Multiple Family	2,620.9	2,404.1	(216.8)	-8.3%
Industrial	3,060.0	3,052.8	(7.2)	0.0%
Public Authority	1,531.3	1,779.0	247.7	16.2%
Other	545.5	542.1	(3.4)	-0.6%
Irrigation	0.0	0.0	0.0	0.0%
Res. Flat Rate	0.0	0.0	0.0	0.0%

TABLE 2-2

CALIFORNIA WATER SERVICE COMPANY
LOS ALTOS-SUBURBAN DISTRICT

AVERAGE NUMBER OF CUSTOMERS

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
Metered Connections				
Residential	16,790	16,864	74	0.4%
Business	1,175	1,123	(52)	-4.4%
Multiple Family	151	119	(32)	-21.2%
Industrial	5	5	0	0.0%
Public Authority	186	186	0	0.0%
Other	11	11	0	0.0%
Irrigation	0	0	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	18,318	18,308	(10)	-0.1%
Flat Rate Connections				
Residential Flat	0	0	0	0.0%
Private Fire Protection	389	389	0	0.0%
Public Fire Protection	5	5	0	0.0%
Total flat rate connections	394	394	0	0.0%
Total Active Connections				
Include Fire Protection	18,712	18,702	(10)	-0.1%
Exclude Fire Protection	18,318	18,308	(10)	-0.1%

TABLE 2-3

CALIFORNIA WATER SERVICE COMPANY
LOS ALTOS-SUBURBAN DISTRICT

AVERAGE NUMBER OF CUSTOMERS

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
Metered Connections				
Residential	16,824	16,898	74	0.4%
Business	1,181	1,129	(52)	-4.4%
Multiple Family	151	119	(32)	-21.2%
Industrial	5	5	0	0.0%
Public Authority	183	183	0	0.0%
Other	9	9	0	0.0%
Irrigation	0	0	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	18,353	18,343	(10)	-0.1%
Flat Rate Connections				
Residential Flat	0	0	0	0.0%
Private Fire Protection	394	394	0	0.0%
Public Fire Protection	5	5	0	0.0%
Total flat rate connections	399	399	0	0.0%
Total Active Connections				
Include Fire Protection	18,752	18,742	(10)	-0.1%
Exclude Fire Protection	18,353	18,343	(10)	-0.1%

TABLE 2-4

CALIFORNIA WATER SERVICE COMPANY
LOS ALTOS-SUBURBAN DISTRICT

TOTAL SALES AND SUPPLY

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(KCCF/YEAR)			
Metered Sales				
Residential	4,512.1	4,590.4	78.3	1.7%
Business	1,164.5	1,090.9	(73.6)	-6.3%
Multiple Family	395.8	286.1	(109.7)	-27.7%
Industrial	15.3	15.3	(0.0)	-0.2%
Public Authority	284.8	330.9	46.1	16.2%
Other	6.0	6.0	(0.0)	-0.6%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total metered sales	6,378.5	6,319.5	(59.0)	-0.9%
Flat Rate Sales				
Residential	0.0	0.0	0.0	0.0%
Unaccounted For Water 5.76%	390.2	386.6	(3.6)	-0.9%
Total delivered	6,768.7	6,706.1	(62.6)	-0.9%
Supply				
Company Wells	2,250.3	2,187.7	(62.6)	-2.8%
Purchases - SCVWD	4,518.4	4,518.4	0.0	0.0%
Total production	6,768.7	6,706.1	(62.6)	-0.9%

TABLE 2-5

CALIFORNIA WATER SERVICE COMPANY
LOS ALTOS-SUBURBAN DISTRICT

TOTAL SALES AND SUPPLY

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(KCCF/YEAR)			
Metered Sales				
Residential	4,521.3	4,530.6	9.4	0.2%
Business	1,170.4	1,080.3	-90.2	-7.7%
Multiple Family	395.8	281.8	-114.0	-28.8%
Industrial	15.3	15.0	-0.3	-1.7%
Public Authority	284.8	325.9	41.1	14.4%
Other	6.0	5.9	-0.1	-2.1%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total metered sales	6,393.6	6,239.5	(154.0)	-2.4%
Flat Rate Sales				
Residential	0.0	0.0	0.0	0.0%
Unaccounted For Water 5.76%	391.1	381.7	(9.4)	-2.4%
Total delivered	6,784.7	6,621.2	(163.5)	-2.4%
Supply				
Company Wells	2,266.3	2,102.8	(163.5)	-7.2%
Purchases - SCVWD	4,518.4	4,518.4	0.0	0.0%
Total production	6,784.7	6,621.2	(163.5)	-2.4%

TABLE 2-6

CALIFORNIA WATER SERVICE COMPANY
LOS ALTOS-SUBURBAN DISTRICT

OPERATING REVENUES

TEST YEAR 2011

(AT PRESENT RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
WRAM Revenues				
Residential	13,196.3	13,425.1	228.8	1.7%
Business	3,429.1	3,212.3	(216.8)	-6.3%
Multiple Family	1,165.7	842.6	(323.1)	-27.7%
Industrial	45.1	44.9	(0.2)	-0.4%
Public Authority	838.7	974.4	135.7	16.2%
Other	17.7	17.6	(0.1)	-0.6%
Irrigation	0.0	0.0	0.0	0.0%
Recycled	0.0	0.0	0.0	0.0%
Total General Metered	18,692.6	18,517.0	(175.6)	-0.9%
Non-WRAM Revenues				
Service Charges	4,003.9	3,972.3	(31.6)	-0.8%
Residential Flat	0.0	0.0	0.0	0.0%
Private Fire Protection	169.6	169.6	0.0	0.0%
Public Fire Protection	2.3	2.3	0.0	0.0%
Other	39.8	39.8	0.0	0.0%
Total Flat Rate	4,215.6	4,184.0	-31.6	-0.7%
Deferred Revenues	0.0	0.0	0.0	0.0%
Total revenues	22,908.2	22,701.1	(207.1)	-0.9%

TABLE 2-7

CALIFORNIA WATER SERVICE COMPANY
LOS ALTOS-SUBURBAN DISTRICT

OPERATING REVENUES

TEST YEAR 2011

(AT CWS PROPOSED RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
WRAM Revenues				
Residential	14,483.7	14,734.9	251.2	1.7%
Business	4,252.7	3,983.9	(268.8)	-6.3%
Multiple Family	1,445.6	1,045.0	(400.6)	-27.7%
Industrial	55.9	55.7	(0.2)	-0.4%
Public Authority	1,040.2	1,208.5	168.3	16.2%
Other	21.9	21.8	(0.1)	-0.5%
Irrigation	0.0	0.0	0.0	0.0%
Recycled	0.0	0.0	0.0	0.0%
Total General Metered	21,300.0	21,049.8	(250.2)	-1.2%
Non-WARM Revenues				
Service Charges	3,820.4	3,774.1	(46.3)	-1.2%
Residential Flat	0.0	0.0	0.0	0.0%
Private Fire Protection	181.7	181.7	0.0	0.0%
Public Fire Protection	2.5	2.5	0.0	0.0%
Other	50.6	50.6	0.0	0.0%
Total Flat Rate	4055.2	4008.8	-46.4	-1.1%
Deferred Revenues	0.0	0.0	0.0	0.0%
Total revenues	25,355.2	25,058.6	(296.6)	-1.2%

CHAPTER 3: OPERATIONS AND MAINTENANCE EXPENSES

A. INTRODUCTION

This Chapter presents DRA's analysis and recommendations on Operation and Maintenance ("O&M") expenses in the Los Altos District of California Water Service Company ("CWS") for the Test Year 2011. Table 3-A shows the comparison of total O&M expense estimates at present rates for the Test Year.

Table 3-A. Comparison of Los Altos District's Total O&M Expense Estimates (including Payroll and Conservation).

Test Year 2011	DRA	CWS	CWS Exceeds DRA
Total O&M Expenses	$13,135,800	$13,841,600	$750,800 or 5.4%

B. SUMMARY OF RECOMMENDATIONS

DRA recommends that the Commission adopt its estimates for individual O&M expense accounts as discussed in the following sections. For the Los Altos District, DRA recommends adjustments to CWS' Test Year estimates for the following O&M expense accounts: (1) Purchased Water; (2) Groundwater Extraction Charges; (3) Purchased Power; (4) Purchased Chemicals; (5) Postage, (6) Operations Transportation; (7) Maintenance Transportation; and (8) Uncollectibles.

C. DISCUSSION

DRA conducted an independent analysis of CWS testimonies, workpapers and methods of estimating the O&M expenses for the Los Altos District in this General Rate Case ("GRC").

Generally, CWS uses a five-year average of recorded expenses adjusted for inflation to estimate its O&M expenses. CWS deviates from the five-year average

approach when it believes excluding a certain year's recorded expense from the average would provide a more accurate estimate of forecast years' expense levels.

DRA reviews the overall pattern of inflation-adjusted recorded expenses to assess the reasonableness of CWS' estimates and to propose alternative estimates, where applicable. DRA also examines the recorded data to determine the appropriateness of including in the forecast (averaging) calculation certain costs, such as one-time costs that are not expected to occur in the forecast period.

In calculating expenses that are a function of water production, sales and/or number of customers, DRA uses its estimates presented in Chapter 2 - Water Consumption and Operating Revenues of this Report. Both DRA and CWS apply DRA Energy Cost of Service Branch's escalation factors issued on May 31, 2009 to develop forecasted expenses.

Table 3-1 at the end of this Chapter summarizes the O&M expense estimates DRA recommends and compares them with CWS requests for Test Year 2011. Each O&M expense account listed in Table 3-1 is discussed below.

1) OPERATION EXPENSES

(a) PURCHASED WATER

About three-quarters of the District's water requirement is met through purchased water. Los Altos purchases its water from the Santa Clara Valley Water District ("SCVWD") and the San Jose Water Company ("SJWC"). In 2008, the District purchased about 74% of its total water requirement) from SCVWD and about 0.3% of total water requirement from SJWC.[10]

[10] CWS' Los Altos Report on the Results of Operation and Prepared Testimony dated July 1, 2009, page 13.

DRA reviews and accepts CWS' method of estimating the District's Purchased Water costs and the use of currently effective rates and charges from SCVWD and SJWC. DRA's Purchased Water expense estimates reflect the purchased water forecasts presented in Chapter 2 of this Report (no change from CWS' purchased water quantities). Additionally, DRA corrects a formula error in CWS' workpapers (Table 5-B, Operations and Maintenance Expenses) which references to a wrong Purchased Water expense amount. For comparison purposes, CWS' estimate for Test Year 2011 presented below reflects that correction.

DRA recommends that the Commission adopt DRA's Test Year 2011 Purchased Water expense estimate shown below.

O&M Account	DRA	CWS	CWS Exceeds DRA
Purchased Water	$4,888,800	$4,888,800*	$0 or 0%

*** incorrectly calculated as $4,854,700 in CWS' Table 5-B, Operations and Maintenance Expenses.**

(b) GROUNDWATER EXTRACTION CHARGES

CWS' Los Altos District pays groundwater extraction charges to the Santa Clara Valley Water District. DRA reviews and accepts CWS' estimating methodology and unit cost of $520 per acre-foot. DRA's estimates however reflect its higher well production forecasts presented in Chapter 2 of this Report.

DRA recommends that the Commission adopt DRA's Test Year 2011 Groundwater Extraction expense estimate shown below.

O&M Account	DRA	CWS	CWS Exceeds DRA
Purchased Water	$4,005,600	$3,869,700	-$135,900 or -3.4%

(c) PURCHASED POWER

To estimate its purchased power expense, CWS first multiplies its estimated kilowatt-hours per hundred thousand cubic feet (KWh/KCcf) of water

produced by its estimated annual water production quantity (in KCcf).[11] The resulting energy requirement (in KWh) is then multiplied by the average cost per KWh purchased from PG&E.[12]

DRA agrees with CWS' method of estimating Purchased Power expense for this District. DRA's estimates however reflect its water production forecasts presented in Chapter 2 of this Report, which are higher than CWS'.

DRA recommends that the Commission adopt DRA's Test Year 2011 Purchased Power expense estimate shown below.

O&M Account	DRA	CWS	CWS Exceeds DRA
Purchased Power	$1,333,300	$1,311,600	-$21,700 or -1.6%

(d) PURCHASED CHEMICALS

Purchased Chemicals expense is a function of the cost of chemicals and the estimated water supply requirement. CWS develops its Test Year's estimate by multiplying the inflation-adjusted, recorded purchased chemical cost per unit of production by the total annual water production forecast (from applicable sources).

CWS' Purchased Chemicals estimates for this District are based on an average of recorded unit costs from the most recent *four-year* period (2005-2008). In its response to DRA's data request PPM-004, CWS explains that the 2004 expenses were excluded from the forecast to reflect the District's switch from free chlorine to chloramines in 2004 in its water treatment.

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[11] CWS uses KWh/KCcf and unit cost quantities from the District's last GRC. As stated in CWS' July 1, 2009 General Report, projected changes in the unit cost of purchased power are not included; this expense is offsettable by an advice letter filing.

[12] CWS uses KWh/KCcf and unit cost quantities from the District's last GRC. As stated in CWS' July 1, 2009 General Report, projected changes in the unit cost of purchased power are not included; this expense is offsettable by an advice letter filing.

DRA accepts CWS' method of estimating Purchased Power expense for this District. DRA's estimates however reflect its water production quantities presented in Chapter 2 of this Report, which are higher than CWS' estimated quantities.

DRA recommends that the Commission adopt DRA's Test Year 2011 Purchased Chemicals expense estimate shown below.

O&M Account	DRA	CWS	CWS Exceeds DRA
Purchased Chemicals	$58,000	$56,400	-$1,600 or -2.8%

(e) OPERATIONS PAYROLL

For Operations Payroll expense estimates, please refer to DRA's Payroll Report. DRA's Operations Payroll expense estimate for Test Year 2011 is included in Table 3-1 at the end of this Chapter.

(f) POSTAGE

CWS' annual postage costs for the District are a function of: (1) postage rates; (2) the number of customers; and (3) the number of mailings to each customer per year. In this GRC, CWS assumes the number of mailings per customer remains constant over the forecast period. However, CWS applies a 4.8% increase in postage cost per customer in 2009 to account for a May 11, 2009 rate increase implemented by the United States Postal Service ("USPS"). For 2010-2012, CWS escalates the postage cost per customer by those years' composite escalation factors.

DRA notes that the 4.8% increase in postage rate is applicable to first-class mailings. Since CWS' customer mailings would qualify for USPS bulk mailing rates, applying the 4.8% in first-class rate increase to the forecast does not accurately reflect CWS' expected postage cost increase. DRA recommends using a lower 3.2% increase as an approximation of CWS' 2009 increase in postage cost

per customer. The 3.2% increase is the average increase of USPS bulk mailing rates effective on May 11, 2009.

Additionally, DRA does not believe that escalation factors should be automatically applied to 2010-2012 postage expense forecasts. Annual rate increases are not at all certain. For example, according to the Associated Press on October 19, 2009, "Postmaster General John E. Potter announced in an internal postal memorandum that there will be no rise in prices next year [2010] for products in which the agency dominates the market, such as first-class mail." Bulk-rate mailings fall into this same USPS product category and, therefore, are not expected to have a rate increase in 2010. For that reason, DRA recommends that escalation factors *not* be applied to the District's postage expense forecasts.

In addition to the above two adjustments to CWS' calculations, DRA also reflects its forecasted total number of customers presented in Chapter 2 of this Report.

DRA recommends that the Commission adopt DRA's Test Year 2011 Postage expense estimate shown below.

O&M Account	DRA	CWS	CWS Exceeds DRA
Postage	$76,000	$81,500	$5,500 or 7.2%

(g) OPERATIONS TRANSPORTATION

CWS develops the District's total Transportation expense estimate in aggregate for (1) Operations, (2) Maintenance, and (3) Administration and General (A&G). The total estimate is then allocated among these three areas by the average distribution over the last recorded period, which is 2008.

CWS develops its total transportation expense estimate based on recorded 2008 costs adjusted for inflation. Additionally, if the forecast period includes a request for additional vehicle(s), CWS increases the transportation expense estimate by the ratio of additional vehicle(s) to total number of existing vehicles.

CWS in this GRC requests *two* additional vehicles in 2009 and another *two* in 2010.

DRA's estimates are based on a five-year (2004-2008) average, instead of CWS' proposed 2008-only data. Additionally, DRA removes all expenses associated with the additional vehicle request. This adjustment is consistent with DRA's recommendation on the rate treatment for CWS' additional employee requests presented in DRA's Payroll Report.

DRA uses CWS' allocation methodology to determine Transportation expense estimates for Operations, Maintenance and A&G. DRA recommends that the Commission adopt DRA's Test Year 2011 Transportation expense estimates in Table 3-B below.

Table 3-B. Transportation Expense Estimates for Los Altos District.

Transportation Expenses:	DRA	CWS	CWS Exceeds DRA
Operations	$139,200	$202,300	$63,100 or 45.3%
Maintenance	$48,500	$70,500	$22,000 or 45.3%
A&G	$0	$0	$0 or 0%
Total:	$187,700	$272,800	$85,100 or 45.3%

(h) UNCOLLECTIBLES

CWS estimates its Uncollectibles expense for the Los Altos District by applying the average uncollectible rate from its most recent five-year period (2004-2008) to its revenue estimates. The uncollectible rate from each recorded year is calculated by dividing total recorded uncollectible expense by total recorded revenue. DRA reviews the Los Altos District's recorded uncollectible rates from the most recent six years and finds the historical five-year average rate to be a reasonable estimate for the forecast period. DRA's estimates for total Uncollectibles however reflect DRA's revenue projections presented in Chapter 2 of this Report.

DRA recommends that the Commission adopt an uncollectible rate of *0.11409%* for Test Year 2011 for the Los Altos District. DRA's recommended Uncollectibles expense total is shown in Table 3-A at the end of this Chapter.

(i) SOURCE OF SUPPLY

CWS' Source of Supply expense estimates for the Los Altos District are based on average recorded annual expenses from the most recent five years (2004-2008). DRA agrees with CWS' estimating approach for this account and recommends no change to CWS' Test Year 2011 Source of Supply expense estimate as shown below.

O&M Account	DRA	CWS	CWS Exceeds DRA
Source of Supply	$900	$900	$0 or 0%

(j) PUMPING

Pumping expenses include labor, miscellaneous, and fuel expenses. CWS' Pumping expense estimates for the Los Altos District are based on average recorded annual expenses from the most recent five-year period (2004-2008). DRA agrees with CWS' estimating approach for this account and recommends no change to CWS' Test Year 2011 Pumping Expense estimate as shown below.

O&M Account	DRA	CWS	CWS Exceeds DRA
Pumping	$145,600	$145,600	$0 or 0%

(k) WATER TREATMENT

CWS' Water Treatment expense account includes well sampling, inorganic laboratory, bacterial laboratory, outside lab and miscellaneous expenses. CWS' Water Treatment expense estimates for the Los Altos District are based on recorded expenses from the most recent five-year period (2004-2008). DRA agrees with CWS' estimating approach for this account and recommends no change to CWS' Test Year 2011 Water Treatment expense estimate as shown below.

O&M Account	DRA	CWS	CWS Exceeds DRA
Water Treatment	$68,900	$68,900	$0 or 0%

(l) TRANSMISSION AND DISTRIBUTION

CWS' Transmission and Distribution ("T&D") expense account includes supervision and engineering, flushing, T&D lines, turn on's and turn off's, customer installation and miscellaneous expenses. CWS' T&D expense estimates for the Los Altos District are based on average recorded expenses from the most recent five-year period (2004-2008). DRA agrees with CWS' estimating approach for this account and recommends no change to CWS' Test Year 2011 T&D expense estimate as shown below.

O&M Account	DRA	CWS	CWS Exceeds DRA
T&D	$161,900	$161,900	$0 or 0%

(m) CUSTOMER ACCOUNTING

CWS' Customer Accounting expense estimates for the Los Altos District are based on recorded expenses from the most recent five-year period (2004-2008). DRA agrees with CWS' estimating approach for this account and recommends no change to CWS' Test Year 2011 Customer Accounting expense estimate as shown below.

O&M Account	DRA	CWS	CWS Exceeds DRA
T&D	$123,900	$123,900	$0 or 0%

(n) CONSERVATION

For Conservation expense estimates, please refer to DRA's Conservation Report. DRA's Conservation expense estimate for Test Year 2011 is included in Table 3-1 at the end of this Chapter

2) MAINTENANCE EXPENSES

(a) MAINTENANCE PAYROLL

For Maintenance Payroll expense estimates, please refer to DRA's Payroll Report. DRA's Maintenance Payroll expense estimate for Test Year 2011 is included in Table 3-1 at the end of this Chapter

(b) MAINTENANCE TRANSPORTATION

Section C.1.g of this Chapter presents DRA's analysis and recommendations on total transportation expenses for CWS' Los Altos District. DRA recommends that the Commission adopt DRA's Test Year 2011 Maintenance Transportation expense estimate presented in Table 3-B (see Section C.1.g).

(c) STORES

CWS' Stores expense estimates for the Los Altos District are based on average recorded expenses from the most recent five-year period (2004-2008). DRA agrees with CWS' estimating approach for this account and recommends no change to CWS' estimated Test Year 2011 Stores expense estimate as shown below.

O&M Account	DRA	CWS	CWS Exceeds DRA
Stores	$38,700	$38,700	$0 or 0%

(d) CONTRACTED MAINTENANCE

CWS' Contracted Maintenance expense estimates for the Los Altos District are based on recorded expenses from the most recent five-year period (2004-2008). DRA agrees with CWS' estimating approach for this account and recommends no change to CWS' Test Year 2011 Contracted Maintenance expense estimate shown below.

O&M Account	DRA	CWS	CWS Exceeds DRA
Contracted Maintenance	$541,400	$541,400	$0 or 0%

D. CONCLUSION

DRA recommends that the Commission adopt its O&M expense estimates for the Los Altos District as presented herein.

TABLE 3-1

CALIFORNIA WATER SERVICE COMPANY
LOS ALTOS-SUBURBAN DISTRICT

OPERATION & MAINTENANCE EXPENSES

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
At present rates				
Operating Revenues	22,908.2	22,701.1		
Uncollectible rate	0.11049%	0.11049%		
Uncollectibles	25.3	25.1	(0.2)	-0.9%
Operation Expenses				
Purchased Water	4,888.8	4,854.7	(34.1)	-0.7%
Replenishment Assessment	0.0	0.0	0.0	0.0%
Groundwater Extraction Charges	4,005.6	3,869.7	(135.9)	-3.4%
Purchased Power	1,333.3	1,311.6	(21.7)	-1.6%
Purchased Chemicals	58.0	56.4	(1.6)	-2.8%
Payroll	951.9	1,101.2	149.3	15.7%
Postage	76.0	81.5	5.5	7.2%
Transportation	139.2	202.3	63.1	45.3%
Uncollectibles	25.3	25.1	(0.2)	-0.9%
Source of Supply	0.9	0.9	0.0	0.0%
Pumping	145.6	145.6	0.0	0.0%
Water Treatment	68.9	68.9	0.0	0.0%
Transmission & Distribution	161.9	161.9	0.0	0.0%
Customer Accounting	123.9	123.9	0.0	0.0%
Conservation	185.5	791.2	605.7	326.5%
Total Operation Expenses	12,164.8	12,794.9	630.1	5.2%
Maintenance Expenses				
Payroll	342.4	396.1	53.7	15.7%
Transportation	48.5	70.5	22.0	45.4%
Stores	38.7	38.7	0.0	0.0%
Contracted Maintenance	541.4	541.4	0.0	0.0%
Total Maintenance Expense	971.0	1,046.7	75.7	7.8%
Total O & M Expenses (incl uncoll)	13,135.8	13,841.6	705.8	5.4%
At proposed rates				
Operating Revenues	25,355.2	25,058.6		
Uncollectible rate	0.11049%	0.11049%		
Uncollectibles	28.0	27.7		
Total O & M Expenses (incl uncoll)	13,138.5	13,844.2	705.7	5.4%

CHAPTER 4: ADMINISTRATIVE & GENERAL EXPENSES

A. INTRODUCTION

This Chapter presents DRA's recommended expense levels for California Water Service Company's ("CWS") 2011 Test Year Administrative and General ("A&G") expenses for the Los Altos District.

The categories of A&G expenses cover general expenses including Payroll, Transportation Expenses, Rent, Administration Charges Transfer, Workers' Compensation, Nonspecific Expenses, Amortization of Limited Term Investments and Dues and Donations Adjustment. Table 4-1 presents a comparison of total expense estimates for Test Year 2011.

DRA analyzed CWS' exhibits, supporting workpapers, CWS' responses to DRA's data requests, information provided in meetings, phone conversations, e-mails, and CWS' methods of estimating A&G expenses.

B. SUMMARY OF RECOMMENDATIONS

DRA's estimated total for A&G expenses is $1,316,500 for Test Year 2011. CWS' estimate for the same time period is $1,452,200. CWS' estimate exceeds DRA's estimate by $135,700, or 10.3%. DRA's estimated total for A&G expenses is $1,331,300 for 2012. CWS' estimate for the same time period is $1,485,000. CWS' estimate exceeds DRA's estimate by $153,700 or 11.5%. The difference between the forecasted expense levels of DRA and CWS is the result of: 1) DRA's 2011 Test Year estimates of the various A&G activity expenses; 2) account by account adjustments; 3) different methodologies; and 4) the use of the May 2009 Energy Cost of Service Branch escalation factors memo to derive the estimates as discussed below.

C. DISCUSSION

1) Methodology

DRA conducted an independent analysis of CWS' workpapers and methods of estimating the A&G expenses. DRA analyzed CWS' application and exhibits, supporting workpapers, CWS' data request responses, information provided in meetings, field trips to CWS site locations, telephone conversations and e-mails. In general, DRA uses a five-year (2004-2008) average to derive its A&G expense estimates where it had differences with CWS. DRA also removes unusual expenses recorded in certain years to arrive at a different total than CWS, in particular for Nonspecific Expenses. DRA applies its escalation factors to all A&G accounts.

2) Payroll

For A&G payroll expense, please refer to DRA's Payroll Report.

3) Benefits

There were no methodical differences between DRA and CWS in calculating employee benefits. DRA's estimates for the accounts below are based on (1) total payroll dollars, and (2) total number of employees. CWS' estimates are also a function of these two factors. Per employee unit benefit costs were developed by Milliman[13] and are based on a variety of actuarial assumptions. The underlying assumptions, except for the escalation factors, were accepted by DRA. Any differences are, therefore, attributable to different escalation factors and differing estimates for total company payroll and total General Office and district employees for 2011 and 2012.

[13] Milliman is CWS' Pensions and Benefits actuarial consultants.

DRA recommends the following amounts (thousands of dollars) for Account 795, Pensions and Benefits:

	DRA		CWS	
	2011	**2012**	**2011**	**2012**
Total Account 795	$984.1	$989.8	$1,081.8	$1,098.9

All company benefits are accounted for in general operations and allocated to each of the districts using the four-factor method of allocation. In general benefit costs are a function of employee payroll dollars, and/or the number of employees. The following is a breakdown of the sub-accounts included in the total Account 795 Pensions and Benefits:

(a) Account 7951-1 Retirement Savings Plan.

CWS provides employees with a 401(k) program and matches 50% of employee contributions up to 8% of payroll or the statutory contribution limit, whichever is less. Therefore, CWS' maximum contribution is 4% of company payroll. However, not all employees participate in the program. Based on actual participation levels, CWS' matching contribution during the last five years, was approximately 3%. This rate was used by CWS to forecast the test year amount, and is in line (or comparable) to those offered by other California utilities.[14]

DRA estimated the test year contribution based on the five-year average contribution percentage of 3%, which was multiplied by DRA's estimate of total company payroll (in 2011 and 2012).

[14] The 3% rate is in line with the 401(k) plans offered by San Jose Water, PG&E, Southern California Edison, and Sempra Energy. See the Milliman analysis, CWS General Report, Tab 12.

(b) Account 7951-2 Retirement Fund.

CWS' pension funding estimate is based on an actuarial forecast from Milliman. The Milliman analysis also reflects a unit cost per employee which DRA and CWS applied to the estimated number of employees to arrive at the test year's estimate. DRA and CWS' estimates differ because of different escalation factors and different estimates for total employees in the General Office and all districts.

The Milliman forecast is based on certain assumptions such as population growth, payroll changes, and salary adjustments. The Milliman forecast also assumes a long term rate on plan assets of 6.75%, and a discount rate of 5.75% for the years 2011 through 2013. CWS follows FASB[15] Statement of Financial Accounting Standards (SFAS) No. 87, as modified by SFAS 132 and SFAS 158.[16] CWS has followed SFAS 87 since it became effective in 1987. Prior to 1987, CWS pension costs equaled the cash contributions to the pension plan determined in accordance with ERISA.[17] The test year projections are based on Milliman's actuarial valuation as of January 1, 2009 for determining the Net Periodic Benefit Cost under SFAS 87. The underlying pension costs assumptions were accepted by DRA.

DRA was persuaded that CWS had taken appropriate steps to mitigate the ratepayer impact of Plan costs. Further, CWS undertook the following measures to avail itself of the benefits provided under (a) The Pension Protection Act of

[15] Financial Accounting Standards Board.
[16] CWS' response to DRA Data Request JRC-2, Q.7.
[17] Employment Retirement Income Security Act, or Federal law.

2006, (PPA) and (b) The Worker, Retiree and Employer Recovery Act (WRERA) of 2008:[18]

(i) CWS fully complied with PPA and WRERA. CWS modified the actuarial cost method for purposes of determining the minimum funding requirement to the Unit Credit method. CWS also adopted the use of the "3-segment" interest rates (for the 2008 minimum funding requirement) and the "full yield curve" (for the 2009 minimum funding requirement). The actuarial valuations for 2008 and 2009 have shown that the contributions by CWS will satisfy the minimum funding requirements as modified by PPA and WRERA.

(ii) In December 2008, CWS made an election to voluntarily reduce its carryover balance (i.e., pre-PPA credit balance) of $1,537,616 as of January 1, 2008 to $0, so that such amount could be included in its plan assets. This was done in order to improve the plan's funded percentages under PPA. In 2009, CWS elected to use the "full yield curve" to determine the funding target under PPA. This increased the plan's funded percentage for 2009.

(c) Account 7952- Group Health Insurance.

CWS administers its own (self-insured) employee health care plan. The cost of health insurance is based on actual claims experience and not outside premium payments. The plans include Medical, Dental and Vision care. Further, the plans are on the PPO model where employees are encouraged to use network health care providers in order to minimize costs. CWS' estimate is based on an actuarial forecast from Milliman and includes employee contributions of $125 per month. The Milliman forecast assumes that overall medical cost inflation will

[18] CWS' response to DRA Data Request JRC-2, Q.1.

continue to be 10% annually for the forecast period.[19] The Milliman analysis also reflects a unit cost per employee which DRA and CWS applied to the estimated number of employees. DRA and CWS' estimate differs because of different escalation factors and different estimates for total employees in the General Office and all districts. The underlying forecast assumptions were accepted by DRA.

(d) Account 7952-1 Retiree Group Health Insurance.

CWS administers its own (self-insured) retiree health care plan. Therefore, costs for these plans are based on claims experience, not outside premium payments. The plans are on the PPO model, where employees are encouraged to use network providers in order to minimize costs. Further, retirees pay a monthly premium of $300 per person (a retiree and spouse pay $600 per month). This rate decreases to $144 per person when there is other coverage such as Medicare.

The retiree plan is funded in advance in accordance with SFAS 106, which requires that annual funding of the plan be based on an actuarial analysis of the expected future expense arising during the employee service time. CWS' estimate is based on an actuarial forecast from Milliman. The Milliman forecast assumes that overall medical cost inflation will continue to be 10% annually for the forecast period. The Milliman analysis also reflects a unit cost per employee which DRA and CWS applied to the estimated number of employees. DRA and CWS' estimate differs because of different escalation factors and estimates for total employees in the General Office and all districts. The underlying forecast assumptions, except for the escalation factors, were accepted by DRA.

[19] Dental and Vision care inflation is forecasted at 5% each for 2011 through 2013.

4) Transportation Expense

DRA addresses Transportation Expense in Chapter 3, Operations and Maintenance Expenses, of this Report. There are no A&G Transportation expenses for this district.

5) Rent

CWS has estimated rental expense of $64,400 for Test Year 2011 and $66,100 for 2012.[20] DRA has verified the information regarding the company's rental expense, and recommends adopting this estimate for CWS' Rent expense.

6) Administration Charges Transfer

Administration Charges Transfer represents credits for unregulated activity. CWS'estimate of ($110,900) for Test Year 2011 and ($110,900) for 2012, for Administration Charges Transferred based upon the last recorded year.[21] DRA reviewed CWS' workpapers and recommends adopting these estimates.

7) Workers Compensation

CWS' estimates of $63,800 in Test Year 2011, and $63,800 in 2012 for Workers Compensation is based on actuarial expectations conducted by actuaries at Milliman USA ("Milliman"). An assumption embedded in the estimate is a provision to account for Workers' Compensation including expected future payments from current employment.[22] In other words, instead of basing the costs on the well-established "pay-as-you-go methodology" that the Commission has consistently utilized, CWS proposes changing to an accrual basis and including the amortization of past liabilities for which payments have not yet been made.

[20] Refer to Report on the Results of Operation and Prepared Testimony for the Los Altos District, Chapter 6.

[21] Refer to CWS' Formal Application Workpapers for the Los Altos District, Table 6-B.

In the prior rate case, CWS requested the same methodology change. DRA disagreed and calculated a percentage reduction at the General Office level based on the 2002-2006 average for the prior Test Year 2008-2009. The Commission similarly applied DRA's recommended reduction to all the districts in that case. In Decision (D.) 08-07-008 (pages 25-26, Section 4.7 on Workers' Compensation), the Commission upheld the use of the "pay-as-you-go methodology" for accounting for Workers' Compensation insurance costs.

For the current rate case, DRA continues to disagree with CWS' proposed change in recovery methodology and recommends continuing the "pay-as-you-go methodology" for recovering this cost. To put in perspective CWS' current proposal for Test Year 2011, on a company-wide basis, i.e., 24 districts plus General Office, CWS' total proposed Workers' Compensation is $2,747,250. This amount is almost triple the total 2008 recorded amount of $992,800 and about 70% higher than the 2004-2008 five year average (in 2009 dollars) of $1,643,900.

DRA reviewed the recorded amounts for Workers' Compensation for this district. DRA finds the recorded amounts for 2004 to 2008 are more reflective of the "pay-as-you-go methodology" for accounting for Workers Compensation that the Commission approved in D. 08-07-008. DRA then took a five-year average of these recorded amounts, escalated the five-year average using DRA's labor escalation factors to derive its Test Year 2011, and 2012 forecasts of $63,800, for both years respectively, for the Los Altos District.

DRA recommends adopting its estimate of $63,800 for Workers Compensation for Test Year 2011 for this District.

(continued from previous page)

[22] Refer to General Report on the Results of Operations and Prepared Testimony, pg. 62.

8) Nonspecific Expenses

Nonspecific Expenses generally represent miscellaneous administrative and general expenditures. The Nonspecific Expenses account contains various sub-accounts. However, CWS does not provide estimated amounts for each sub-account for future years. Instead, it provides a compound figure for Nonspecific Expenses that are based on historical spending levels in all sub-accounts. CWS' Nonspecific Expenses estimates for the Test Year 2011 and 2012 of $91,900 and $94,300, respectively are based on a five-year average. DRA reviewed all sub accounts within Nonspecific expenses and adjusted some amounts for the years 2004 through 2008 under the following subaccounts: Account 792601 – Travel Meals Expense by $6,926, Account 792602 – Meals at CWS by $4,667, Account 794300 – Safety Training by $3,067, Account 799500 – Miscellaneous Expense by $7,320. DRA then escalated its five-year average using DRA's composite escalation factors to derive its 2011 forecast. DRA recommends adopting its Nonspecific Expenses estimates of $87,300 and $89,600 for Test Year 2011 and 2012 forecasts respectively. CWS' Nonspecific Expenses forecasts of $91,900 and $94,300 exceed DRA's by $4,600, and $4,700, or 5.3%, and 5.2% respectively for Test Year 2011 and 2012. DRA's reasons for these adjustments are described below:

(a) Account 792601 - Travel Meals Expense

DRA identified expenditures in 2004 for food /employee celebration day; a luncheon at Chef Chu's, an employee Xmas party, and Round Table Pizza. DRA noticed in 2005 expenditures for a Xmas party at BJ's, a customer service lunch, and Round Table Pizza. DRA identified in 2006 a sizable expenditure at Round Table Pizza. In 2007, DRA identified expenditures for an employee celebration day, and another sizable expenditure for Round Table Pizza. In 2008, DRA identified another sizable expenditure for Round Table Pizza. DRA believes that

these expenditures are of no benefit to ratepayers, and removes them from DRA's estimate. DRA used a five-year average of recorded years 2004 to 2008 with the cost of the previously mentioned items removed.

(b) Account 792602 – Meals at CWS

DRA identified expenditures in 2004 through 2008 for luncheons, an employee Xmas party, Franceschi's, Pizza Chic, and Round Table Pizza. DRA believes that these expenditure's are of no benefit to ratepayers, and removes them from DRA's estimate. DRA used a five-year average of recorded years 2004 to 2008 with the cost of the previously mentioned items removed.

(c) Account 794300 – Safety Training

DRA identified expenditures for moving expenses in 2004-2005 for the purchase of Incentive Albums, for $1,284, and $1,783 respectively. DRA believes that the previously mentioned expenditures are of no benefit to ratepayers, and removea them from DRA's estimate. DRA used a five-year average of recorded years 2004 to 2008 expenses with the cost of the previously mentioned items removed.

(d) Account 799500 – Miscellaneous General Expenses

DRA identified expenditures in this account from 2004 through 2008 for two Bocce Courts in 2004, Employee Celebration Day's which included prizes in 2004, 2005, and 2006, flowers, and a gift basket in 2004 and 2005. DRA believes that the previously mentioned expenditures were of no benefit to ratepayers and removed them from DRA's estimate. DRA used a five-year average of recorded years 2004 to 2008 expenses with the cost of the previously mentioned items removed.

9) Amortization of Limited Term Investment

This expense pertains to the amortization of intangible assets, such as capital planning studies. CWS estimates $19,800 for Amortization of Limited Term Investment. CWS bases its estimate from the general method for this expense shown on CWS' amortization schedule. DRA reviewed this account and recommends adopting CWS' estimate.

10) Dues and Donations Adjustment

The Dues and Donations Adjustment represents CWS' adjustment of non-professional dues paid historically, for ratemaking purposes. CWS' estimate for Dues and Donations Adjustment is ($5,300). DRA has reviewed CWS' workpapers and recommends adopting CWS' estimate.

D. CONCLUSION

DRA recommends that the Commission adopt DRA's A&G Expenses for the Los Altos District.

TABLE 4-1

CALIFORNIA WATER SERVICE COMPANY
LOS ALTOS-SUBURBAN DISTRICT

ADMINISTRATIVE & GENERAL EXPENSES

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
~~At present rates~~				
Oper. Rev. less uncoll.	22,882.9	22,701.1		
Local Franchise Rate	1.2637%	1.2637%		
Franchise tax	289.2	286.9	(2.3)	-0.8%
Payroll	213.3	246.7	33.4	15.7%
Benefits	984.1	1,081.8	97.7	9.9%
Transportation Expenses	0.0	0.0	0.0	0.0%
Rent	64.4	64.4	0.0	0.0%
Admin Charges Trsf	(110.9)	(110.9)	0.0	0.0%
Worker's Compensation	63.8	63.8	0.0	0.0%
Nonspecifics	87.3	91.9	4.6	5.3%
Amort of Limited Term Inv.	19.8	19.8	0.0	0.0%
Dues & Donations Adjustment	(5.3)	(5.3)	0.0	0.0%
Total A & G Expenses	1,316.5	1,452.2	135.7	10.3%
(incl. local Fran.)	1,605.7	1,739.1	133.4	8.3%
At proposed rates				
Oper. Rev. less uncoll.	25,327.2	25,058.6		
Local Franchise Rate	1.2637%	1.2637%		
Fran. tax	320.1	316.7	(3.4)	-1.1%
Total A & G Expenses	1,316.5	1,452.2	135.7	10.3%
(incl. local Fran.)	1,636.6	1,768.9	132.3	8.1%

CHAPTER 5: TAXES OTHER THAN INCOME

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations on Taxes Other Than Income for the Los Altos - Suburban District of California Water Service's (CWS) Test Year 2011 General Rate Case. The category of Taxes Other Than Income is comprised of ad valorem (property taxes), business license fees, local franchise fees, and payroll taxes.

B. SUMMARY OF RECOMMENDATIONS

Differences between CWS' and DRA's estimates for Taxes Other Than Income are primarily due to differences in revenue, plant and payroll estimates. The methodologies used by CWS in estimating future taxes and fees are detailed below. Anywhere DRA has made adjustments to improve the consistency or accuracy of estimates has also been noted below.

C. DISCUSSION

1) AD VALOREM TAXES

CWS estimates future ad valorem taxes using the actual ad valorem tax percentage from the last recorded year. This percentage is applied to the following year's estimated net total of utility property accounts.[23] The pro-forma ad valorem estimate is the arithmetic average of the two years. DRA accepts this methodology and notes that differences between CWS and DRA estimates are due to differences in estimations of future plant.

[23] Net Total of Property = plant + materials & supplies + construction work in progress + present value of advances – advances & contributions – deferred income tax

2) BUSINESS LICENSE and LOCAL FRANCHISE FEES

The Los Altos - Suburban District pays a fixed business license fee of $255 in the City of Los Altos and a 2% franchise fee on revenue attributable to customers in some of the municipalities it serves. Based upon 2008 recorded taxes, the Franchise Fee for the district is 1.264% of district revenue. CWS applies this effective percentage to estimated future revenues. DRA accepts the CWS' estimates for the business license fee and the franchise fee and notes that any differences are the result of different estimates of future revenue.

3) PAYROLL TAXES

CWS estimates future payroll taxes using projected payroll amounts and the effective tax rates from the last recorded year. The three components of payroll taxes are Federal Insurance Contributions (FICA), Federal Unemployment Insurance (FUI) and State Unemployment Insurance (SUI). All three components have statutory limits governing the maximum percentage that can be collected from employers (*see table, below*).

PAYROLL TAXES		2009 MAXIMUM	EXPLANATORY NOTES
FICA	Social Security Tax	6.2%	Social Security Tax is 6.2% applied to only the first $106,800 of an employee's salary.
FICA	Medicare Tax	1.45%	
FUI Tax		0.8%	Federal Unemployment Tax is 6.2% reduced by an offset credit of up to 5.4% for a total of 0.8% on the first $7,000 of employee wages ($56 per employee).
SUI Tax (CA)		6.3%	State Unemployment Taxes vary by company from 1.5% to 6.2% plus an Employment Training Tax Rate of 0.1% for a maximum tax percentage of 6.3%.

In general, DRA accepts the methodology utilized by CWS to estimate future payroll taxes. An adjustment was made by DRA to the imputed FICA percentage used by CWS for the Los Altos - Suburban District (8.19%) to coincide with the

maximum tax (7.65%) that can be collected for the combined Social Security and Medicare Taxes (see table above). All other differences between DRA and CWS estimates result from differences in estimates of future payroll.

D. CONCLUSION

DRA recommends Commission adoption of DRA's estimates of Taxes Other Than Income that are presented in Tables 5-1.

TABLE 5-1

CALIFORNIA WATER SERVICE COMPANY
LOS ALTOS-SUBURBAN DISTRICT

TAX DEDUCTIONS AND CREDITS

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Ad Valorem taxes	365.5	389.4	23.9	6.5%
Local Franchise (pres rates)	289.2	286.9	(2.3)	-0.8%
Local Franchise (CWS prop rates)	320.1	316.7	(3.4)	-1.1%
Social Security Taxes	121.3	149.7	28.4	23.4%
Business License (pres rates)	0.0	0.0	0.0	0.0%
Business License (CWS prop rates)	0.0	0.0	0.0	0.0%
Taxes other than income (present rates)	776.0	826.0	50.0	6.4%
Taxes other than income (CWS proposed rates)	806.9	855.8	48.9	6.1%
State Tax Depreciation	2,028.3	2,108.6	80.3	4.0%
Transp. Dep. Adj.	(56.1)	(64.8)	(8.7)	15.5%
State Tax Deduct(pres rates)	1,972.2	2,043.8	71.6	3.6%
State Tax Deduct (CWS prop rates)	1,972.2	2,043.8	71.6	3.6%
Fed. Tax Depreciation (pres rates)	1,724.9	1,793.2	68.3	4.0%
State Income Tax (pres. rates)	240.0	62.3	(177.7)	-74.1%
State Income Tax (CWS prop rates)	453.3	267.8	(185.5)	-40.9%
Pre. Stock Div. Credit	0.0	0.0	0.0	0.0%
DPAD (pres. Rates)	(82.5)	(76.5)	6.0	-7.3%
DPAD (CWS prop. Rates)	(147.9)	(283.3)	(135.4)	91.6%
Fed. Tax Deduct.(pres rates)	1,882.4	1,779.0	(103.4)	-5.5%
Fed. Tax Deduct (CWS prop rates)	2,030.4	1,777.7	(252.7)	-12.4%

CHAPTER 6: INCOME TAXES

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations on Income Taxes for the Los Altos - Suburban District of California Water Service (CWS) Test Year 2011 General Rate Case. In developing its recommendations, DRA reviewed the reports, workpapers, and data responses of CWS in conjunction with information obtained from the California Franchise Tax Board and the Internal Revenue Service.

B. SUMMARY OF RECOMMENDATIONS

The majority of the differences between CWS and DRA estimates of Income Taxes are attributable to differences in estimated revenue, expenses, and rate base. Anywhere DRA has made adjustments to the estimating methodology used by CWS is detailed below. The four areas in which DRA made adjustments to CWS calculations for Los Altos - Suburban pertain to the: (1) federal deduction of the California Corporate Franchise Tax, (2) California Corporate Franchise Tax total percentage, (3) calculation of the interest expense deduction, and (4) domestic production activities deduction.

C. DISCUSSION

1) DRA ADJUSTMENTS

(a) Federal Deduction of California Corporate Franchise Tax (CCFT)

D.89-11-058, issued in November of 1989, required that the prior year's CCFT be used as the deduction for calculation of test year federal income taxes. As discussed throughout the decision, companies at that time were required to pay

estimated California taxes one year in advance.[24] D.89-11-058 corrected the timing difference between when companies had previously paid California taxes and when they had realized such payment as a deduction for federal income taxes.

Since 1989, the California Tax Code has changed so that corporations are no longer required to make estimated CCFT payments to the state one year in advance. In fact, California tax law now requires corporations to compute an estimated tax "upon the basis of the net income for that taxable year."[25] As such, DRA recommends using the current year's CCFT as a deduction in the current year's calculation of federal income taxes. Differing from D.89-11-058 yet more representative of current California tax practice, DRA's methodology provides a more accurate estimate of a utility's assumed tax consequences and revenue requirements. More importantly, consistent with long-standing regulatory tradition and Generally Accepted Accounting Procedures (GAAP), the DRA methodology more closely adheres to the fundamental "matching principle," where costs incurred in a given period should be matched against the revenue or benefits received in the same period.

(b) California Corporate Franchise Tax Total Percentage

Referencing D.84-05-036 yet failing to cite the specific ordering paragraph, section, or discussion, CWS added six-basis points to the CCFT percentage used to estimate state taxes for test year and escalation years. Through data requests, review of Commission decisions, and personal interviews, DRA attempted to find some justification for CWS' inclusion of an additional 0.06% in state tax estimates. Unable to substantiate the validity of this addition, DRA removed the percentage, which reduced CCFT estimates by 0.06%.

[24] California Revenue and Taxation Code, Part 11, Chapter 2, Article 2, Section 23151(f)(2)
[25] Ibid

(c) Calculation of the Interest Expense Deduction

A formula error in CWS' workpapers for calculating the Interest Expense Deduction resulted in Working Cash being subtracted from Rate Base. DRA has corrected this error in the calculation of the deduction for Los Altos - Suburban. The recommended Interest Expense Deduction now equals Rate Base (including working cash) multiplied by the current CWS weighted-average-cost-of-debt (3.16%).[26]

(d) Domestic Production Activities Deduction (DPAD)

Beginning in taxable year 2010, Section 199 of the IRS Code allows a deduction equal to 9% of a taxpayer's qualified production activities income (QPAI). The calculation of this deduction by CWS for Los Altos - Suburban assumes that all income is from qualified production activities. This assumption results in an overestimation of the allowable deduction and an underestimation of the district's assumed taxes. DRA has corrected the DPAD calculation for Los Altos - Suburban to incorporate only those qualifying activities into the deduction. DRA multiplies the deduction calculated by CWS by the percentage of water produced[27] in the district (a qualifying activity).

2) GENERAL INCOME TAX CALCULATIONS

In calculating income taxes, both DRA and CWS subtract common expenses from estimated revenue. For the calculation of state taxes, CWS has calculated tax depreciation amounts to reflect the required flow-through of deferred tax benefits, while federal tax depreciation amounts reflect the requirements of normalization.

[26] D.09-05-019: Base Year 2009 Cost of Capital for the three large multi-district Class A Water Utilities

[27] "produced water" and "purchased water" are the two categories of "total water" used to calculated DPAD

This methodology is consistent with the requirements of the Economic Recovery Act of 1981, the Tax Equity and Fiscal Responsibility Act of 1982, and the Tax Reform Act of 1986.

D. CONCLUSION

DRA recommends Commission adoption of DRA's estimates of Income Taxes that have been calculated and presented in Tables 6-1 and 6-2.

TABLE 6-1

CALIFORNIA WATER SERVICE COMPANY
LOS ALTOS-SUBURBAN DISTRICT

TAXES BASED ON INCOME

TEST YEAR 2011

(PRESENT RATES)

Item	DRA	CWS		CWS exceeds DRA Amount	%
	(Thousands of $)				
Operating revenues	22,908.2	22,701.1		(207.1)	-0.9%
Deductions:					
O & M expenses	13,135.8	13,841.6		705.8	5.4%
A & G expenses	1,316.5	1,452.2		135.7	10.3%
G. O. Prorated expenses	2,337.3	3,149.9		812.6	34.8%
Exclude GO Book Depreciation	(311.7)	(362.2)		(50.5)	16.2%
Taxes not on Income	776.0	826.0	18,907.5	50.0	6.4%
Transportation Deprec Adj	(56.1)	(64.8)		(8.7)	15.5%
Interest	967.2	1,050.0	19,892.7	82.8	8.6%
Income before taxes	4,743.2	2,808.4		(1,934.7)	-40.8%
~~Calif. Corp. Franchise Tax~~					
State Tax Deductions	(2,028.3)	(2,108.6)		-80.3	4.0%
Taxable income for CCFT	2,714.9	699.8		(2,015.1)	-74.2%
CCFT Rate	8.84%	8.84%			
Additional Tax per D.84-05-036	0.0	0.4		0.4	0.0%
CCFT	240.0	62.3		(177.7)	-74.1%
~~Federal Income Tax~~					
Tax Depreciation	1,724.9	1,793.2		68.3	4.0%
State Corp Franch Tax	240.0	165.1		(74.9)	-31.2%
Pref Stock Dividend Credit	0.0	0.0		0.0	0.0%
Taxable income for FIT	2,778.3	850.1		(1,928.2)	-69.4%
Domestic Prod. Activities Ded.	(82.5)	(76.5)		6.0	-7.3%
Adjusted Taxable Income	2,695.8	773.6		(1,922.2)	-71.3%
FIT Rate	35.00%	35.00%			
FIT	943.5	270.8		(672.8)	-71.3%
Investment Tax Credit	5.0	5.0		0.0	0.0%
Total FIT	938.5	265.8		(672.8)	-71.7%
Total FIT & CCFT	1,178.5	328.0		(850.5)	-72.2%

TABLE 6-2

CALIFORNIA WATER SERVICE COMPANY
LOS ALTOS-SUBURBAN DISTRICT

TAXES BASED ON INCOME

TEST YEAR 2011

(AT CWS PROPOSED RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	25,355.2	25,058.6	(296.6)	-1.2%
Deductions:				
O & M expenses	13,138.5	13,844.2	705.7	5.4%
A & G expenses	1,316.5	1,452.2	135.7	10.3%
G. O. Prorated expenses	2,337.3	3,149.9	812.6	34.8%
Exclude GO Book Depreciation	(311.7)	(362.2)	(50.5)	16.2%
Taxes not on Income	806.9	855.8	48.9	6.1%
Transportation Deprec Adj	(56.1)	(64.8)	(8.7)	15.5%
Interest	967.2	1,050.0	82.8	8.6%
Income before taxes	7,156.6	5,133.5	(2,023.0)	-28.3%
Calif. Corp. Franchise Tax				
State Tax Deductions	(2,028.3)	(2,108.6)	-80.3	4.0%
Taxable income for CCFT	5,128.3	3,024.9	(2,103.4)	-41.0%
CCFT Rate	8.84%	8.84%		
Additonal Tax per D.84-05-036	0.0	0.4	0.4	0.0%
CCFT	453.3	267.8	(185.5)	-40.9%
Federal Income Tax				
Tax Depreciation	1,724.9	1,793.2	68.3	4.0%
State Corp Franch Tax	453.3	192.8	-260.5	-57.5%
Pref Stock Dividend Credit	0.0	0.0	0.0	0.0%
Taxable income for FIT	4,978.4	3,147.5	(1,830.8)	-36.8%
Domestic Prod. Activities Ded.	(147.9)	(283.3)	-135.4	91.6%
Adjusted Taxable Income	4,830.5	2,864.2	-1966.3	-40.7%
FIT Rate	35.00%	35.00%		
FIT	1,690.7	1,002.5	(688.2)	-40.7%
Investment Tax Credit	5.0	0.0	(5.0)	-100.0%
Total FIT	1,685.7	1,002.5	(683.2)	-40.5%
Total FIT & CCFT	2139.0	1270.3	(868.7)	-40.6%

CHAPTER 7: UTILITY PLANT IN SERVICE

A. INTRODUCTION

Tables 7-1 and 7-2 at the end of this Chapter show DRA and CWS' estimates for the Los Altos District Plant in Service for Test Year 2011 and Escalation Year 2012.

DRA reviewed and analyzed CWS' testimony, application, Minimum Data Requirements, workpapers, capital project details, estimating methods, Urban Water Management Plan ("UWMP"), Water Supply & Facilities Master Plan ("WS&FMP"), and responses to various DRA data requests. DRA also conducted a field investigation of most of the proposed specific plant additions before making its own independent estimates including adjustments where appropriate. Important and significant differences between DRA and CWS' estimates of specific plant additions are attributed to the items listed in Table 7-B.

B. SUMMARY OF RECOMMENDATIONS

DRA recommends that: 1) plant additions for seven specific projects in 2009 be disallowed or adjusted; 2) plant additions for six specific projects in 2010 be disallowed or adjusted; 3) plant additions for six specific projects in 2011 be disallowed; 4) plant additions for four specific projects in 2012 be disallowed; 5) plant additions for CWS' main, service & hydrant replacement programs be adjusted to reflect DRA's estimates; 6) plant additions for carryover projects be adjusted to reflect DRA's estimates; and 7) plant additions for non-specifics in 2009 through 2012 be adjusted to reflect DRA's escalation factors. Based on these recommendations, DRA's estimates for the 2009, 2010, 2011, and 2012 plant additions are $3,617,000, $2,371,800, $1,022,000, and $1,494,200, respectively versus CWS' proposed amounts of $5,285,400, $2,920,800, $1,598,200, and $3,446,800, respectively for the same years.

Table 7-A. Los Altos District

Company funded Plant Additions, Including Carryovers and Non-Specifics (Thousands of Dollars)

	2009	2010	2011	2012	AVG
DRA	$3,617.0	$2,371.8	$1,022.0	$1,494.2	$2,126.3
CWS	$5,285.4	$2,920.8	$1,598.2	$3,446.8	$3,312.8

Table 7-B. Specific Project Differences Comparison

Budget Year	Project ID Number	Category	Project Description	CWS Proposed Budget	DRA Proposed Budget
2009	15402	Pumps	Replace Pump - Sta. 118	$70,400	$0
2009	16400	Pumps	Replace Pump - Sta. 32-01	$67,700	$0
2009	17207	Storage	Paint Interior and Exterior - Sta.19 Tank 1	$145,600	$105,800
2009	17259	Storage	Paint Interior and Exterior - Sta.113 Tank 1 - Pinecrest	$146,300	$104,800
2009	17725	Equipment	0.5 Ton Pickup	$27,500	$0
2009	17968	Equipment	2.5 Ton C&C Vac Unit	$224,400	$116,314
2009	20222	Equipment	CARB Regulation - Retrofit V200005	$20,000	$0
2010	19448	Storage	Paint Interior - Sta. 41 Tank 2 - Mora	$183,800	$130,600
2010	19470	Storage	Paint Exterior - Sta. 114 Tanks 1 & 2 - O'Keefe	$145,300	$100,800
2010	19470	Storage	Paint Interior Complete - Sta. 114 Tank 2 - O'Keefe	$177,900	$126,500
2010	20328	Pumps	Energy Monitoring Program	$98,800	Pilot Program in Marysville
2010	21196	Pumps	No Description	$51,000	$0
2010-2011	29729	Intangible Plant	WS&FMP Updates	$484,000	$0
2011	20071	Purification	Chloramination - Blending of Sta. 6-	$209,498	$0

Budget Year	Project ID Number	Category	Project Description	CWS Proposed Budget	DRA Proposed Budget
			02 & Sta. 2-01		
2011	20071	Pumps	Replace Booster & Well Pumps, Panelboard -Sta. 2	$758,287	$0
2011	20071	Structures	Site Improvements - Sta. 6-02 & Blending of Sta. 6-02 & Sta. 2-01	$383,895	$0
2011	20071	Storage	Tank Retrofit - Blending of Sta. 6-02 & Sta. 2-01	$213,319	$0
2011	20328	Pumps	Energy Monitoring Program	$102,000	Pilot Program in Marysville
2012	15602	Pumps	Reconfigure Site - Modify Panelboard - Sta. 119-03	$4,736	$0
2012	15602	Storage	Reconfigure Site - New Pipe from Well to Tank	$43,496	$0
2012	19867	Pumps	Replace Booster Pump, Control Valve, Panelboard, 4" Bypass Piping w/ PRV, & SCADA - Sta. 117-B	$385,315	$0
2012	20328	Pumps	Energy Monitoring Program	$105,000	Pilot Program in Marysville

C. DISCUSSION

The Los Altos District has recorded $3,476,300 per year in average gross plant additions during the past five years (2004-2008).[28] During this same period, the Commission authorized $2,510,200 per year in gross capital additions for the Los Altos District that were included in rates.[29] Recorded gross plant additions have exceeded the Commission authorized gross plant addition budgets during 2004-2008 by a total of $4,830,730, which represents a 38% budgetary overrun of

[28] Gross plant additions include Company funded plant additions as well as contributions and advance deposits for specific plant.

[29] Appendix B to this report, CWS response to DRA data request MD7-001.

authorized additions for that period.[30] Because these additions have not been authorized (they are only mentioned once in a misleading sentence next to an unexplained table comparing authorized to recorded capital additions in Chapter 8 of the RO report) they escape reasonableness review while significantly increasing rates. The district's average gross plant addition request for the period of 2009-2012 is $4,148,700 per year, which represents a 19% increase over historical recorded plant additions and a 65% increase over historical authorized plant additions.

DRA issued multiple data requests investigating the significant mismatch between authorized and recorded capital additions for the last five years.[31] In its responses, CWS did not offer any meaningful explanation for the differences other than the fact that contributions and advances are estimated in authorized additions, while they derive from actual figures in recorded additions. DRA considers this level of recorded plant additions excessive, not compliant with previous Commission orders, and therefore recommends a systematic audit of recorded capital additions and authorized budgets in the subsequent general rate case ("GRC"), as was ordered in D.03-09-021 for all future CWS general rate cases.[32] On page 54 of that Decision, it states:

> "We will, therefore, require that Cal Water submit a report in each of its future district general rate case filings showing budgeted capital projects and actual expenditures. We expect these reports to compare the budgeted capital projects to actual expenditures, and to

[30] Ibid.

[31] Appendix B to this report, DRA data requests MD7-001 and NKS-007.

[32] According to CWS Response to DRA data request NKS-007, CWS does not believe it needs to comply with Order 3 of D.03-09-021 which states, "In all future general rate case applications, Cal Water shall present an initial showing with the major changes that led to the requested change identified and quantified. Each issue should include detailed explanations and justifications for the requested change, with cross-references to evidentiary support. All tables of data should be explained and analyzed. All necessary evidence should be included in the record."

explain each deviation and deferral, with revised in-service dates for the deferrals. We will use this historic analysis to guide our evaluation of any proposed capital projects."

On a going-forward basis, DRA recommends $2,962,200 per year in average gross plant additions during 2009-2012.

1) Carryover Projects

CWS identifies $2,193,969 in 2009 and $197,050 in 2010 carryover projects, respectively, in its ratebase workpapers. In the Results of Operation report for the Los Altos District, CWS identifies a total of $4,993,000 in carryover projects. DRA was not able to reconcile the two estimates, even after DRA sent a clarifying data request to CWS.

Based upon the CWS response to DRA data request MD7-008 on all carryover projects, DRA estimated a carryover budget of $3,077,100 by subtracting advice letter projects from the carryover totals, since advice letter projects have uncertain costs and completion dates, and may not occur at all.[33] However, according to CWS' workpapers, the total carryover budget (including advice letter projects) is substantially less with a total budget of $2,391,019. DRA believes that CWS made a significant material error in its calculation of carryovers during 2009-2012. If CWS corrected the error and the Commission adopted CWS' proposals, a rate increase greater than what CWS requested in its application would result. Therefore, DRA based its plant additions estimate on the proposed carryover budget ($2,193,969 in 2009 and $197,050 in 2010) used in CWS' ratebase workpapers.

Carryover project 7514 for a new well and treatment plant at Station 24 was a carryover from the 2004 GRC, two rate cases ago. The Commission adopted

[33] Advice letter projects are handled separately though a rate base offset.

this project via advice letter with a cap of $1,004,000, which would be applicable until the start of the test year in the 2007 GRC, which was July 1, 2008.[34] In DRA's last report on Los Altos in the 2007 GRC it appeared that CWS was planning on recording this project to plant in late 2007 or 2008. However, this did not occur.[35] CWS states that this project was in service on July 1, 2009, one year after the advice letter deadline.[36] In its carryover workpapers, CWS lists a total cost of $1,573,509 for project 7514, which is 57% more than the advice letter cap. DRA does not recommend allowing this project into plant since CWS did not follow Commission orders, has provided no explanation for the delays or cost overruns, and did not present a request for an extension of the advice letter deadline.

2) Main, Services and Hydrant Replacement Programs

CWS requests a total of $2.6 million for 2009-2012 in Company funded specific mains, service, and hydrant replacement projects as shown in Table 7-C below:

Table 7-C. Requested Mains, Streets, Services and Hydrants Replacement Costs[37]

	2009	2010	2011	2012	Totals
Mains	$1,046,100	$198,450	$364,150	$679,054	$2,287,754
Services	$60,700	$78,300	$20,600	$7,326	$166,926
Hydrants	$75,600	$12,600	$16,400	$0	$104,600

[34] Settlement agreement in A.04-09-028. Appendix L, p.8-9. http://docs.cpuc.ca.gov/published/GRAPHICS/48065.PDF

[35] Appendix B to this report, CWS response to DRA data request MD7-001. DRA verified that project 7514 was not recorded to plant in 2007 or 2008.

[36] Appendix B to this report, CWS response to DRA data request MD7-008, Question 17.

[37] Data from CWS Advanced Capital Budget workpapers and project justifications. Ratebase workpapers have smaller specific project totals. For example, the ratebase workpapers show no budget for specific main projects in 2012.

Non-Specific Mains, Services, Streets and Hydrants	$535,300	$546,500	$559,200	$571,300	**$2,212,300**
Total Specific	$1,182,400	$289,350	$401,150	$686,380	**$2,559,280**
Total including non-specific	$1,717,700	$835,850	$960,350	$1,257,680	**$4,771,580**

The $2.6 million in specific projects is in addition to the requested $2.2 million in non-specific mains, service, street and hydrant replacement projects, for a total of $4.8 million in mains, hydrants, and service replacement projects.

CWS declined to provide historical costs for mains, services, hydrants, valves and meters to DRA, despite multiple data requests.[38] CWS' claimed justification for these projects usually include assertions of either numerous leaks or fireflow improvements as justifications for replacement of these mains, services, and hydrants.

a. **Fireflow:** In terms of fire flow, according to GO 103-A, "The utility shall not be responsible for modifying or replacing at its expense any existing facilities, which are otherwise adequate, in order to provide increased fire flow or duration due to changes in the standards after the initial construction."[39] Therefore, CWS' replacement of pipe merely to improve fireflow cannot be justified.

b. **Leaks/100 miles of main:** Further, CWS provided the following response to ALJ O'Donnell's request for an exhibit showing CWS' methodology for mains replacement, "CWS annually determines the number of leak for each district on the basis of leaks per one hundred

[38] Appendix B to this report, see non-responsive CWS answers to DRA data requests MD7-016, MD7-017 and NKS-005.

[39] GO 103-A, VI. Fire Protection Standards, 3.Replacement of Mains A.Changes to Fire Code, p.25.

miles of main. This information along with the actual length of targeted mains in a district is used to set the annual target main replacement length." However, when DRA asked for the leaks per one hundred miles of main for projects in this GRC, CWS was unable to provide such information.[40]

c. **Repair vs replacement:** When DRA asked CWS how it concluded a particular targeted main was beyond its "useful life," CWS responded: "In reality, one can extend the "useful life" of many facilities, but the cost to do so may outweigh the cost to replace."[41] However when DRA asked CWS if it did any analysis to show that the cost to repair was higher than the cost to replace for the targeted mains in this general rate case, CWS said it had not done such an analysis.[42]

DRA therefore concludes that CWS is not able to effectively prioritize its specific hydrant, main and service replacement projects based on actual conditions of the pipe and through the use of tools, such as AWWA's "Decision Support System for Distribution System Piping Renewal," which have been available since 2002.[43] DRA notes that other utilities, such as California American Water Company, routinely prepare a "Condition Based Assessment" document prepared by a licensed professional engineer to assess the condition of their transmission

[40] Appendix B to this report, CWS response to DRA data request NKS-006, question 7.
[41] Appendix B to this report, CWS response to DRA data request NKS-002, question 11.
[42] Appendix B to this report, CWS response to DRA data request NKS-002, question 8.
[43] Appendix B to this report, CWS response to DRA data request NKS-002, question 12. CWS replied that it had not used this or a similar tool to evaluate its mains targeted for replacement in this general rate case.

and distribution systems, in each district to identify and prioritize investment in transmission and distribution infrastructure.[44]

DRA therefore recommends that the Commission:

1) Disallow the specific main, hydrant and services replacement projects i.e. a total of $2.6 million.

2) Allow the adjusted[45] non-specific budget in the amount of $2.0 million for mains, service, street and hydrant projects to cover any repairs or unforeseen circumstances.

3) Direct CWS to develop a "condition-based assessment" prepared by a licensed professional engineer including a prioritization plan, a comparison of the cost to repair versus replacement, and an analysis of leaks/100 miles to justify its main replacement programs in future rate cases.

3) Projects 15402, 16400, 21196, 15602, 19867- Pump Replacement

CWS budgets $70,400 for project 15402 in 2009, $67,700 for project 16400 in 2009, $51,000 for project 21196 in 2010, $48,200 for project 15602 in 2012, and $385,300 for project 19867 in 2012. Most of these projects relate to routine pump replacement projects, except for project 19867 which includes panelboard and control valve replacement as well as bypass piping, a pressure relief valve ("PRV") and a new SCADA installation. CWS also requests $791,300 in non-

[44] For example, in A.08-01-027, Cal Am conducted a condition-based assessment of its infrastructure for its Monterey district, and prioritized its proposals in that rate case based on the condition of the infrastructure.

[45] Non-specific capital budgets have been adjusted for DRA's inflation forecast as discussed at the end of the chapter.

specific pump projects during 2009-2012, a total request of over $3 million in pump associated projects. CWS claims that the pump replacement projects are necessary due to low efficiency pumps and motors and due to old pumps that are difficult to find replacement parts for.

In terms of difficulty conducting repair work, DRA does not agree with CWS' assertion. For example, in the Mid-Peninsula District, CWS provided information that pumps and motors over 40 years old were still able to be repaired by replacing bearings, wear-rings, gaskets, and packing.[46] Therefore, pumps and motors should only be replaced when efficiency tests and cost savings estimates provide reasonable justification for their replacement.

The following table from Standard Practice U-3-SM shows the Commission's metrics for pump efficiency ranges:[47]

Table One: Pump Efficiency Ranges—Percent Wire to Water (from Case No. 10114)

Motor HP	Poor	Fair	Good	Excellent
3-5	41.9 or less	42-49.9	50-54.9	55 or above
7.5-10	44.9 or less	45-52.9	53-57.9	58 or above
15-30	47.9 or less	48-55.9	56-60.9	61 or above
40-60	52.9 or less	53.59.9	60-64.9	65 or above
75 and above	55.9 or less	56-62.9	63-68.9	69 or above

CWS did not provide pump efficiency test results on any of the proposed pump projects. For project 15402, CWS merely stated that the pump is "old and needs replacement" with no further justification. As demonstrated above, without pump test results and estimates of cost savings, "old" pumps should not be retired prematurely when repair is more cost-effective. Therefore, DRA recommends disallowing this project.

[46] Appendix B to this report, CWS response to DRA data request MD7-017, Question 6 and WS&FMP p.B-2 and C-2.

[47] Standard Practice U-3-SM, http://docs.cpuc.ca.gov/word_pdf/REPORT/83111.pdf.

For project 16400, CWS states that the pump is oil lubricated which presents a risk of bacteriological growth. However, CWS has provided no evidence that oil lubricated pumps have caused bacterial contamination in the past or in other districts. DRA cannot support pump replacement merely based upon CWS' desire to convert existing pumps to a water lubricated design. Therefore DRA recommends disallowing this project.

Project 21196 was included in CWS' pump replacement budget but there was no project description provided or justification included in CWS' application. Therefore, DRA recommends disallowing this project.

For project 15602, CWS states that the plumbing and panelboard at Station 119 needs to be redesigned to allow the booster and well pump to operate simultaneously. CWS claims that the new piping configuration will increase pumping capacity by 0.192 MGD or 133 gpm, which is a small increase compared to most pumps in the districts. DRA does not believe the approximate $50,000 in costs are justified for the small increase in pumping capacity. Therefore, DRA recommends disallowing this project.

For project 19867, CWS states that the pumps and panelboard are 36 years old and replacement parts are no longer available. DRA has already addressed this argument in the preceding discussion regarding repair of Mid-Peninsula pumps and motors older than 40 years of age. CWS further complains that during main breaks field personnel must install temporary hoses and a PRV in the Los Altos Heights zone. DRA supports installing new piping with a dedicated PRV at Station 117. According to CWS' cost estimate these items will cost about $20,000 including contingency, overhead and an unsupported 12% price escalation. DRA recommends that CWS fund this aspect of the project through its substantial non-specific pump budget. Regarding the SCADA portion of the project, DRA already supports project 21195 for new SCADA RTU's at a cost of $105,000 and project

16107 for SCADA intrusion alarms at a cost of $122,200. DRA recommends disallowing the remaining $365,000 in costs since the pump and panelboard do not need to be replaced and CWS has not identified any operational problems with the existing pump and panelboard. Thus, DRA recommends disallowing this project's cost.

In summary, DRA recommends that the Commission:

1) Allow $590,700 in specific pump projects and associated equipment, while disallowing the remainder ($1.64 million) of CWS' request.

2) Allow the adjusted[48] non-specific pump replacement budget in the amount of $720,900 prioritized for projects that will produce the greatest operational cost and energy savings.

3) Direct CWS to reevaluate its pump replacement program with a targeted priority list based upon anticipated cost and energy savings due to pump replacement.

4) Project 20071 – Reactivate Stations 2 and 6

CWS budgets $1,565,000 in 2011 to reactive Station 2 and 6 in order to increase water production and "blend nitrate laden water from Station 6 with the distribution water at Station 2's steel tank."[49] CWS states that many of its wells have been shut off in the last two decades and that it "is no longer able to be self-sufficient in supplying water to its customers."[50] Station 2 has not been in

[48] Non-specific capital budgets have been adjusted for DRA's inflation forecast as discussed at the end of the chapter.
[49] Project justification for project 20071.
[50] Appendix B to this report, CWS response to DRA data request MD7-008, Question 5.

operation since 2000 and the well at Station 6 has been inactive since 1979.[51] DRA does not concur with the need for this project. According to the UWMP completed in 2007, CWS has a current groundwater capacity of 18,437 AFY which is forecast to remain stable through 2030 through well rehabilitation and replacement.[52] CWS has a current demand of 14,700 AFY according to the most recent 2008 data.[53] Therefore, CWS can currently meet all existing customer demand with only its wells, although in practice it uses purchased water from Santa Clara Valley Water District ("SCVWD") to meet 70% of demand.[54] Furthermore, CWS can meet all forecasted customer demand until 2030 with existing well capacity, even under the most rigorous multiple dry year drought scenarios.[55]

As has been shown above, CWS has far more groundwater and purchased water capacity than existing customer demand for the foreseeable future. CWS should continue its regular maintenance and rehabilitation program on existing wells. Adding a nitrate laden well at Station 6 will harm overall water quality without any tangible water supply benefits. Therefore, DRA recommends disallowing this project. DRA has removed the capital costs associated with these projects from 2011 plant additions.

[51] Ibid.

[52] Los Altos UWMP, Chapter 6, p.51-57.

[53] CWS Expense workpapers, Table 4-C.

[54] Los Altos UWMP, p. 21. CWS currently has guaranteed contract water deliveries of 14,400 AFY from SCVWD, in addition to the possibility of buying non-contract water on an annual basis.

[55] Los Altos, UWMP, Chapter 6, p.57.

5) Project 20328 - Energy Monitoring Program, 2009 – 2012

CWS budgets $253,600 during 2010-2012 for power meters, flow meters and pressure recording transducers to more accurately measure the real-time energy consumption at its well and booster stations in the Los Altos District. DRA supports a pilot study of the energy monitoring program in the Marysville District to properly identify the implementation costs and operational benefits of having highly accurate and fine-scaled information on the unit costs (in both dollars and kWh) of water supply. DRA believes that a pilot program in the Marysville District is appropriate after CWS informed DRA that most of the capital infrastructure was already in place in this District, thus requiring little to no capital additions. Since the operational efficiency benefits are highly uncertain, a pilot program would allow quantification before a company-wide program is launched.[56] Therefore, DRA recommends that the energy monitoring program in Los Altos be disallowed and removed from capital additions for those years.

6) Vehicle Replacement, 2009 – 2012

CWS proposes replacing five vehicles over the 2009-2012 rate case cycle in the Los Altos District.[57] DRA examined all the vehicle replacement projects and determined that only one of the vehicles fails to conform to the current Department of General Services ("DGS") replacement criteria. DRA recommends disallowing project 17725 at a total cost of $27,500 in 2009 capital additions to replace a 2001 Toyota Tundra with 73,190 miles. DRA estimates that this vehicle will exceed 120,000 miles in 2015 so this project should be deferred until the next rate case.

[56] In this GRC, CWS budgeted $3.7 million for the energy monitoring program on a company-wide basis.

[57] Appendix B to this report, CWS response to DRA data request MD7-011, Question 1.

DRA notes that the Commission has previously ruled that the most recent DGS criteria are the appropriate standards for vehicle replacement in rate cases involving both CWS and Southern California Water Company.[58] DRA discovered that DGS no longer uses an age based criteria (formerly 8 years) and now relies upon mileage as the sole metric to determine replacement.[59] DGS states that, "The decision whether to retain, reutilize, or dispose of any vehicle not meeting the minimum replacement criteria shall be based on an inspection taking into account the following factors:

- Current mechanical condition.
- Previous maintenance and repair record.
- Extent of needed repairs and availability of parts and life expectancy of vehicle after repair.
- Current sale value.
- Cost and availability of replacement unit and accessories.
- Owning agency's ability to replace unit.

CWS budgets $224,400 for project 17968 to purchase a replacement 2.5 ton vacuum truck for the one purchased in 2001. DRA agrees that this project is necessary based on historical engine usage.[60] CWS states that DRA and CWS agreed to this project in the last GRC and included it in the settlement agreement

[58] D.06-01-025 for Southern California Water Company, and D.07-12-055 for CWS.
[59] DGS Fleet Handbook, April 22, 2008. http://www.documents.dgs.ca.gov/ofa/handbook.pdf.
[60] Appendix B to this report, CWS response to DRA data request MD7-008, Question 1. The engine automatically revs to an rpm equivalent to 30 mph when the vacuum unit is operating.

as an approved project.[61] DRA agrees that in its last GRC RO report it recommended approving this project at a total cost of $198,000, but finds no specific mention of this project in the last settlement agreement between DRA and CWS. Since CWS seeks to increase the total costs for this project by about 13%, DRA investigated the cost basis for its budget estimate. In its project justifications, CWS uses a 25% contingency to arrive at a total budget of $198,000, with no documentation for the $224,400 figure used in its workpapers.

DRA does not agree with CWS' current $224,400 cost estimate and finds the previous $198,000 cost estimate to be excessive as well. DRA notes that CWS seeks to purchase the same model and type of vacuum truck from the same vendor as it did in 2001. Based upon the final work order of $100,271 including construction overhead for the 2001 truck purchase, DRA escalated for 8 years of inflation to arrive at its cost estimate of $116,300. Although DRA recommended a higher amount in the last GRC, at that time it did not have all the information it currently has regarding this project. DRA recommends revising its recommendation to approve the project in 2009 capital additions at a total cost of $116,300. DRA also recommends disallowing project 20222 for a diesel particulate matter retrofit on the old 2001 vacuum truck. Since CWS plans to replace 2001 vacuum truck with project 17968, it would be pointless to retrofit a vehicle that is being retired. DRA recommends removing the $20,000 in project costs from its 2009 capital budget estimate.

7) Projects 17207, 17259, 19448, & 19470– Tank Painting

CWS proposes $145,600 in 2009 capital additions for project 172007 to paint the interior and exterior of Tank 1 at Station 19, $146,300 in 2009 capital additions for project 17259 to paint the interior and exterior of Pinecrest Tank 1 at

[61] Appendix B to this report, CWS response to DRA data request MD7-011, Question 3.

Station 113, $199,000 in 2010 capital additions for project 19448 to paint the interior of Mora Tank 2 at Station 41, and $336,800 in 2010 capital additions for project 19470 to paint the interior of O'Keefe Tank 2 at Station 114. In all cases, DRA agrees that the repainting is necessary and prudent. DRA disagrees on the cost estimates however.

For the interior painting in project 17207, CWS referenced the Ladera Tank 1 in Bear Gulch, with a total interior surface area of 5,026 sq. ft., completed in 2007 to obtain its unit cost. However, the project requires 6,066 sq. ft. of interior painting, so a better cost per foot reference would be the Bel Aire Tank in Los Altos, with an internal surface area of 5,906 sq. ft., completed in 2007. DRA scaled the total cost ($61,330[62] including overhead) of the Bel Aire Tank painting, escalated for inflation and added CWS' estimate of $40,300 for external painting to arrive at a total budget of $105,800. Therefore, DRA recommends that the Commission approve project 17207 at a revised cost of $105,800 in 2009.

For the interior painting in project 17259, CWS referenced the same Ladera Tank 1 project in Bear Gulch, with a total interior surface area of 5,026 sq. ft. to obtain its unit cost. However, the project requires 5,906 sq. ft. of interior painting, so a better cost per foot reference would be the Bel Aire Tank in Los Altos, which had the same interior surface area. DRA scaled the total cost ($61,330[63] including overhead) of the Bel Aire Tank painting, escalated for inflation and added CWS' estimate of $41,000 for exterior painting to arrive at a total budget of $104,800. Therefore, DRA recommends that the Commission approve project 17259 at a revised cost of $104,800 in 2009.

[62] Appendix B to this report, CWS response to DRA data request MD7-001.
[63] Ibid.

For project 19448, CWS referenced Stockton Station 65, Reservoir 10A, with a total interior surface area of 10,984 sq. ft., completed in 2007. This tank painting was recorded at a total cost of $125,535[64] resulting in a unit cost of $11.43 per sq. ft. for the interior painting. DRA applied the unit cost of the Stockton tank painting to the 10,781 square feet of interior painting required for the Mora Tank and escalated by inflation to arrive at its estimate of $130,600. Therefore, DRA recommends that the Commission approve this project at an adjusted cost of $130,600 in 2011.

For project 19470, CWS referenced Stockton Station 65, Reservoir 10A, as described above. DRA applied the $11.43 per sq. ft. unit cost of the Stockton tank painting to the 10,439 square feet of interior painting required for the O'Keefe Tank and escalated by inflation to arrive at its interior estimate of $126,500. For the exterior painting, CWS referenced the Simla Tank in Los Altos, with an external surface area of 12,422 sq. ft., completed in 2008 at a total cost of $80,065. DRA applied the $6.45 per sq. ft. unit cost reference to the O'Keefe tank and escalated for inflation and to arrive at its budget of $100,800. Summing the interior and exterior painting estimates, DRA recommends that the Commission approve project 19470 at a revised cost of $227,300 in 2010.

8) Project 29729 – WS&FMP Updates

CWS budgets $484,000 in 2010 and 2011 capital additions to update its Water Supply & Facilities Master Plan that was last completed in 2003. CWS states that it is required to use a 20 year planning horizon to recommend capital improvements and the 2003 WS&FMP only made forecasts to 2020. According to this reasoning, the 2003 WS&FMP was out of date before it was even issued, as it only included a 17 year planning horizon in 2003.

[64] Appendix B to this report, CWS response to DRA data request MD7-001.

DRA does not agree with the need for this project. According to the Rate Case Plan, "Any water utility filing a GRC on or after July 1, 2008 must submit a long-term, 6-10 year Water Supply and Facilities Master Plan to identify and address aging infrastructure needs."[65] Given the Commission requirements of a minimum 6 year planning horizon for the WS&FMP, the 2003 WS&FMP will not need to be updated until 2014 during the next rate case. As well, DRA notes that there has been little change to the Los Altos distribution system in terms of customer growth or increased demand since the 2003 WS&FMP. The more recently completed 2007 UWMP can also be used for long term capital improvement planning and should be used in a complementary fashion to the WS&FMP. Therefore, DRA recommends disallowing project 29729 and removing the $484,000 in project costs from its 2010 and 2011 capital budget estimate.

9) Non-specific Capital Budgets, 2009 to 2012

CWS proposes $836,000, $853,600, $873,300, and $892,300, respectively in plant additions for non-specifics in the four years from 2009 to 2012. CWS non-specific estimates are based on a 10-year average with a 2% yearly escalation factor. DRA agrees with using the 10-year average, but uses escalation factors for 2009 through 2012 from the May 2009 Energy Cost of Service Branch escalation factors memo. These factors are: 2009 = (5.5)%; 2010 = (0.1)%; 2011 = 2.0%; 2012 = 2.7%. Using these escalation factors the non-specific estimates are $774,700, $773,700, $789,000, and $810,500 for 2009, 2010, 2011, and 2012, respectively.

[65] Decision 07-05-062, p.A-28, Section 18.

D. CONCLUSION

DRA's recommendations have been incorporated in the calculations for DRA's recommended Plant in Service as shown in Table 7-1 and Table 7-2.

TABLE 7-1

CALIFORNIA WATER SERVICE COMPANY
LOS ALTOS-SUBURBAN DISTRICT

PLANT IN SERVICE

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Plant in Service - BOY	61,930.6	64,198.4	2,267.8	3.7%
Additions				
Gross Additions	1,857.9	2,434.1	576.2	31.0%
Capitalized Interest	45.0	59.1	14.1	31.3%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	(219.3)	(219.3)	0.0	0.0%
Net Additions	1,683.6	2,273.9	590.3	35.1%
Adjustments				
Gen. Plant allocated to contracts	0.0	0.0	0.0	0.0%
Historic Capitalized Interest	(39.6)	(39.6)	0.0	0.0%
Plant in Service - EOY	63,614.2	66,472.3	2,858.1	4.5%
Weighting Factor	35.1%	35.1%		
Wtd. Avg. Plant in Service	62,481.5	64,956.3	2,474.8	4.0%

TABLE 7-2

CALIFORNIA WATER SERVICE COMPANY
LOS ALTOS-SUBURBAN DISTRICT

PLANT IN SERVICE

ESCALATION YEAR 2012

	Item	DRA	CWS	CWS exceeds DRA Amount	%
		(Thousands of $)			
	Plant in Service - BOY	63,614.2	66,472.3	2,858.1	4.5%
	Additions				
	Gross Additions	2,330.2	4,282.8	1,952.6	83.8%
	Capitalized Interest	55.5	101.9	46.4	83.6%
	Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
	Retirements	(258.9)	(258.9)	0.0	0.0%
	Net Additions	2,126.8	4,125.8	1999.0	94.0%
	Adjustments				
	Gen. Plant allocated to contractors	0.0	0.0	0.0	0.0%
	Historic Capitalized Interest	(37.6)	(37.6)	0.0	0.0%
	Plant in Service - EOY	65,741.0	70,598.1	4,857.1	7.4%
	Weighting Factor	35.1%	35.1%		
1	Wtd. Avg. Plant in Service	64,322.5	67,881.7	3,559.2	5.5%

CHAPTER 8: DEPRECIATION RESERVE AND DEPRECIATION EXPENSE

A. INTRODUCTION

This chapter presents DRA's analyses and recommendation on Depreciation for CWS' Los Altos District. Tables 8-1 and 8-2 show weighted average accumulated depreciation and amortization for Test Year 2011 and Escalation Year 2012.

B. SUMMARY OF RECOMMENDATIONS

Differences in DRA's and CWS' estimates are the result of different plant additions for the test year and the escalation year. These differences are discussed in Chapter 7, Plant in Service.

C. DISCUSSION

CWS' depreciation rates for components listed in the CPUC Uniform System of Accounts for Water Utilities are based on a "Depreciation Study as of December 31, 2006" prepared by AUS Consultants dated June 21, 2007. If the depreciation rates proposed in the study are used, instead of the depreciation rates adopted in D.06-08-011, the overall composite depreciation rate for the Los Altos District increases by 0.47% (from 2.63% to 3.10%) and 0.47% (from 2.63% to 3.10%) in Test Year 2011 and Escalation Year 2012, respectively.

DRA accepts the depreciation rates for accounts as provided by CWS, but recommends that DRA perform an audit of CWS' submitted Depreciation Study in the next General Rate Case. The Depreciation Study should use a 0% salvage value for small mains (<6" in diameter). This recommendation is consistent with

the procedure that CWS uses to replace these small mains, abandoning the old main in place, when it is replaced.[66]

Based on the annual depreciation rates for accounts as provided in CWS' Depreciation Study the CWS estimates of implicit composite depreciation rates are 3.10% for Test Year 2011 and 3.10% for Escalation Year 2012. The DRA estimates of implicit composite depreciation rates are also 3.10% for Test Year 2011 and 3.10% for Escalation Year 2012.[67]

D. CONCLUSION

DRA reviewed and accepts the methodologies outlined in CWS' Depreciation Study. DRA recommends an audit of CWS' Depreciation Study in the next GRC.

DRA recommends that the Commission adopt DRA's adjusted numbers for depreciation.

[66] For examples, as shown in Tab 55 of the 2009 Bakersfield District Project Justifications, the estimated cost of abandonment of 4" main is $0, this is also attached as Tab L in Appendix B to this report.

[67] Composite Depreciation Rates can be found in Workpaper 9-B2.

TABLE 8-1

CALIFORNIA WATER SERVICE COMPANY
LOS ALTOS-SUBURBAN DISTRICT

DEPRECIATION RESERVE & EXPENSE

TEST YEAR 2011

	Item	DRA	CWS	CWS exceeds DRA Amount	%
		(Thousands of $)			
	Depreciation Reserve - BOY	19,652.2	19,701.1	48.9	0.2%
	Accruals				
	Transportation Equipment	41.7	48.5	6.8	16.3%
	Contributed Plant	324.7	324.4	(0.3)	-0.1%
	Allocated non-reg contracts	0.0	0.0	0.0	0.0%
	Other Plant in Service	1,517.0	1,581.1	64.1	4.2%
	Total Accruals	1,883.4	1,954.0	70.6	3.7%
	Retirements	(260.3)	(260.3)	0.0	0.0%
	Depreciation Reserve - EOY	20,950.6	21,070.4	119.8	0.6%
	Weighting Factor	50%	50%		
1	Wtd. Avg. Depr. Reserve	20,301.4	20,385.8	84.3	0.4%

TABLE 8-2

CALIFORNIA WATER SERVICE COMPANY
LOS ALTOS-SUBURBAN DISTRICT

DEPRECIATION RESERVE & EXPENSE

ESCALATION YEAR 2012

	Item	DRA	CWS	CWS exceeds DRA Amount	%
		(Thousands of $)			
	Depreciation Reserve - BOY	20,950.6	21,070.4	119.8	0.6%
	Accruals				
	Transportation Equipment	42.1	49.0	6.9	16.4%
	Contributed Plant	351.1	350.3	(0.8)	-0.2%
	Allocated non-reg contracts	0.0	0.0	0.0	0.0%
	Other Plant in Service	1,544.7	1,624.0	79.3	5.1%
	Total Accruals	1,937.9	2,023.3	85.4	4.4%
	Retirements	(294.0)	(294.0)	0.0	0.0%
	Depreciation Reserve - EOY	22,594.5	22,799.7	205.2	0.9%
	Weighting Factor	50%	50%		
1	Wtd. Avg. Depr. Reserve	21,597.0	21,759.9	162.9	0.8%

CHAPTER 9: RATEBASE

A. INTRODUCTION

DRA and CWS' estimates for Rate Base for Test Year 2011 and Escalation Year 2012 are discussed in this Chapter.

B. SUMMARY OF RECOMMENDATIONS

DRA recommends adoption of its estimates for: Plant in Service, Depreciation Reserve, and Rate Base.

C. DISCUSSION

Tables 9-1 & 9-2 show DRA's and CWS' estimates of Rate Base for Test Year 2011 and Escalation Year 2012. The significant differences between the Rate Base developed by DRA and CWS are due to the differences in the estimates for Weighted Average Plant in Service, Depreciation, Working Cash, and General Office Allocation.

D. NET-TO-GROSS MULTIPLIER

The net-to-gross multiplier represents the change in gross revenue required to produce a unit change in net revenue. Both DRA and CWS have calculated three multipliers which reflect: 1) the increase required under 100% equity-financing where State and Federal taxes are incurred; 2) the increase required under 100% debt financing where taxes are not incurred (identical to the increase necessary to offset expenses); and 3) the increase required for additions to ratebase, which incorporates the capital structure and financing costs of the utility.[68]

[68] As adopted in Commission Decision 09-05-019

DRA and CWS use similar methodologies in calculating the net-to-gross multipliers. Calculations are shown in Table 9-3 and results are presented below. DRA's adjustment to the Domestic Production Activities Deduction (*see Chapter 5*) results in slightly higher numbers than those calculated by CWS.

California Water Service Company
Los Altos Suburban
Net to Gross Multiplier

	CWS	DRA
100% Equity	**1.62477**	**1.68421**
100% Debt (expense)	**1.01392**	**1.01392**
Ratebase Additions	**1.33999**	**1.37172**

TABLE 9-1

CALIFORNIA WATER SERVICE COMPANY
LOS ALTOS-SUBURBAN DISTRICT

WEIGHTED AVERAGE DEPRECIATED RATE BASE

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Wtd.Avg. Plant in Serv.	62,481.5	64,956.3	2,474.8	4.0%
Materials & Supplies	216.3	216.3	0.0	0.0%
Working Cash - Lead-Lag	172.8	420.0	247.2	143.1%
Amt withheld from Employees	(5.9)	(5.9)	0.0	0.0%
Wtd. Avg. Depr. Res.	(20,301.4)	(20,385.8)	(84.3)	0.4%
Interest Bearing CWIP	0.0	0.0	0.0	0.0%
Advances	1,521.0	1,521.0	0.0	0.0%
Contributions	8,436.7	8,437.7	1.0	0.0%
Reserved Amort.Intangibles	126.1	141.2	15.1	12.0%
Deferred Taxes	3,583.1	3,583.1	0.0	0.0%
Unamortized ITC	92.3	92.3	0.0	0.0%
General Office Alloc	1,289.5	1,917.6	628.1	48.7%
Taxes on - Advances	195.0	195.0	0.0	0.0%
Taxes on - CIAC	319.9	319.9	0.0	0.0%
Average Rate Base	30,608.4	33,858.2	3,249.7	10.6%
Interest Calculation:				
Avg Rate Base	30,608.4	33,227.8	2,619.3	8.6%
x Weighted Cost of Debt	3.16%	3.16%	0.0%	0%
Interest Expense	967.2	1,050.0	82.8	8.6%
less Cap. Interest	0.0	0.0	0.0	0.0%
Net Interest Expense	967.2	1,050.0	82.8	8.6%

TABLE 9-2

CALIFORNIA WATER SERVICE COMPANY
LOS ALTOS-SUBURBAN DISTRICT

WEIGHTED AVERAGE DEPRECIATED RATE BASE

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Wtd.Avg. Plant in Service	64,322.5	67,881.7	3,559.2	5.5%
Material & Supplies	216.3	216.3	0.0	0.0%
Working Cash - Lead-Lag	138.0	509.7	371.7	269.3%
Amt withheld from Employees	(5.9)	(5.9)	0.0	0.0%
Wtd. Avg. Depr. Reserve	(21,597.0)	(21,759.9)	(162.9)	0.8%
Interest Bearing CWIP	0.0	0.0	0.0	0.0%
Advances	1,453.2	1,453.2	0.0	0.0%
Contributions	8,934.4	8,936.0	1.6	0.0%
Reserved Amort.Intangibles	145.9	191.3	45.4	31.1%
Deferred Taxes	3,615.8	3,615.8	0.0	0.0%
Unamortized ITC	87.3	87.3	0.0	0.0%
General Office Alloc	1,122.3	1,860.6	738.3	65.8%
Taxes on - Advances	164.5	164.5	0.0	0.0%
Taxes on - CIAC	337.4	337.4	0.0	0.0%
Average Rate Base	30,461.5	34,920.8	4,459.3	14.6%
Interest Calculation:				
Avg Rate Base	30,461.5	34,200.7	3,739.2	12.3%
x Weighted Cost of Debt	3.16%	3.16%	0.0%	0.0%
Interest Expense	962.6	1,080.7	118.2	12.3%
less Cap. Interest	0.0	0.0	0.0	0.0%
Net Interest Expense	962.6	1,080.7	118.2	12.3%

TABLE 9-3

CALIFORNIA WATER SERVICE COMPANY
LOS ALTOS-SUBURBAN DISTRICT

NET-TO-GROSS MULTIPLIER

TEST YEAR 2011
AND ESCALATION YEAR 2012

Item	DRA	CWS
1) Uncollectibles %	0.11049%	0.11049%
2) 1-Uncoll (100%-line 1)	99.88951%	99.88951%
3) Franchise tax rate	1.26370%	1.26370%
4) Local Franchise (line 3*line 2)	1.26230%	1.26230%
5) Business license rate	0.00000%	0.00000%
6) Business license (line 5*line 2)	0.00000%	0.00000%
7) Subtotal (line 1+line 4+line 6)	1.37279%	1.37279%
8) 1-Subtotal (100%-line7)	98.62721%	98.62721%
9) CCFT (line 8 * 8.84%)	8.71865%	8.71865%
10) Domestic Production Activities Deduction *	2.67028%	8.87645%
11) FIT (line 8 minus line 9 minus line 10 * 35%)	30.53340%	28.36124%
12) Total taxes paid (ln 7+ln 9+ln 10)	40.62484%	38.45268%
13) Net after taxes (1-line 11)	59.37516%	61.54732%

Net-to-Gross Multiplier (1/line 12) = 1.68421 (DRA)
Net-to-Gross Multiplier (1/line 12) = 1.62477 (Utility)

* DRA - Line 8 minus Line 9 multiplied by 9% multiplied by percentage of Qualified Activities
CWS - only multiplies Line 8 by 9%

This net-to-gross multiplier is to be used for changes in net revenue
attributable to rate of return changes only and not to be used for rate base offsets.
The net-to-gross for rate base offsets is much lower because the interest payments
1 for the debt portion of rate base increase is tax deductible.

CHAPTER 10: CUSTOMER SERVICE

A. INTRODUCTION

DRA has reviewed California Water Service Company's ("CWS'") filing, responses to DRA data requests, and data obtained from the Commission's Consumer Affairs Branch regarding customer complaints in the Los Altos District.

B. SUMMARY OF RECOMMENDATIONS

DRA finds CWS' customer service record satisfactory and the customer service process reasonable.

C. DISCUSSION

1) Customer calls and complaints

The Los Altos District office handled an average of 15,800 calls per year in the last 3 years. The customer service representatives ("CSR") in the district office handle all customer complaint calls. When a customer calls the district office, the CSR logs the date and time of the call along with a description of the complaint into the Customer Service Information system. The majority of customer complaints are resolved the same day they are received. Billing questions make up a large portion of the calls received by the district office. The CSR tries to resolve the billing issue directly. However, if a resolution can not be reached, the Customer Services Manager in each district is empowered to make billing adjustments as needed.

All customer complaints filed with the Commission are sent to the CWS rates department and follow a different procedure than described above. The rates department contacts the district office to inform them of the complaint with the goal of resolving the issue within 7 days. The district office researches the complaint, contacts the customer to inform them of the investigations findings and works to reach a resolution. Then the district office submits its findings and

resolution to CWS' rates department for review. CWS' rates department then contacts the Commission's Division of Water and Audits or the Consumer Affairs branch to present the complaint findings. Complaints filed by customers with the Commission since the last GRC were few in number, and all were regarding billing.

2) Water Quality complaints

CWS' records indicate that the number of water quality complaints have been low relative to the number of customers in the Los Altos District. An effective system is in place to receive and record customer complaints concerning water quality. Customer complaints regarding taste and odor are handled by a CSR who explains to the customer why those types of conditions occur. Other types of complaints, such as low pressure or the presence of sand in the water, require a serviceman to go out to the premises and investigate the complaint. When a service call is required, the CSR notifies the maintenance department. CWS assigns personnel to investigate the problem, notify the customer, and resolve the issue. The majority of these complaints are resolved by inspecting the premises. CWS tracks all water quality complaints in their system and records them on a monthly summary report.

Table 10-A shows water quality customer complaint data for the last three years. There are six categories for the different kinds of water quality complaints. These categories are defined as:

- Air - can be trapped in water causing a milky appearance which goes away when allowed to stand and the air goes to the surface;
- Dirty - can be discolored water or sand in the water from mainline flushing or a main break in the area;
- Noise - can be associated with the water system, such as wells turning on, or the customer's internal plumbing;

- Pressure - can be too high or too low; and
- Taste or odor - can be stronger than usual from chlorine, or a musty odor the customer is not accustomed to.

Table 10-A

Los Altos District Customer Water Quality Complaints			
Type	2006	2007	2008
Air	3	1	1
Dirty water	16	4	19
Noise	1	9	6
Pressure	80	36	19
Sand	0	0	0
Taste/Odor	15	4	8
Total	115	54	53
Number of Customers	18,196	18,219	18,221
Total as % of Customers	0.6%	0.3%	0.3%

In 2008, CWS investigated 19 complaints for dirty water. CWS states that discolored water can occur for a variety of reasons, such as when a CWS crew opens a fire hydrant, or there is a main break. Sediment that has built up in the distribution system is lifted from the bottom of the pipe and suspended in the water, which then enters the customer's home when the water is turned on. In each of these complaints, the remedy was to flush the mains through the fire hydrants to clear the problem, with the one exception where the dirty water was associated with the customer's failed water softener.

D. CONCLUSION

DRA recommends the Commission find CWS' customer service to be satisfactory.

CHAPTER 11: RATE DESIGN

A. INTRODUCTION

In this GRC application (09-07-001), CWS requested changes to the non-residential rate design in Special Request #6, and requested changes to the residential rate design in Special Request #11. Thus, the scope of this chapter is limited to recommendations regarding:

1) The Water Revenue Adjustment Mechanism and Modified Cost Balancing Accounts ("WRAM/MCBA"),[69]
2) Impacts of the conservation rate designs to date
3) Impacts on Low Income customer disconnections, and
4) Low income rate assistance surcharges

B. SUMMARY OF RECOMMENDATIONS

1) a. WRAM/MCBA Should Ensure Ratepayers Do Not Bear the Full Burden of the Economic Downturn

DRA recommends that the Commission require CWS to modify the WRAM/MCBA so that it does not disproportionately disadvantage ratepayers compared to shareholders. The WRAM should no longer require ratepayers to pay the full difference between the authorized quantity revenue and actual quantity revenue. The Commission should modify the WRAM/MCBA so that if there are reductions in consumption, ratepayers and shareholders should split this difference equally. This will ensure that ratepayers and shareholders are proportionally affected when conservation rates are implemented.

1) b. WRAM/MCBA sur-credits should be a flat amount applied to the service charge

When there is a combined over-collection in the WRAM/MCBA, the over-collection should be passed on to ratepayers through a flat surcredit on the service

[69] Other than recommendations regarding WRAM/MCBA in DRA's special request chapters.

charge. This change to the surcredit mechanism will ensure that water-conserving customers who use less water do not receive less surcredit than customers who use large quantities of water. This will enhance the conservation price signal.

2) Not Yet Enough Data to Determine Impacts of Conservation Rate Designs

This GRC application from CWS contains six months of consumption data after CWS implemented the rate design and WRAM/MCBA mechanism Trial Programs. Six months of consumption data is not long enough to draw conclusions about the impacts of the conservation rate designs. The Commission should evaluate the impacts of the conservation rate designs in CWS' next GRC.

3) The Commission should require CWS to monitor disconnections by month and communicate payment options to customers

The Commission should require CWS to continue to track the number of residential and LIRA customer disconnections per month. If the number of disconnections has increased, CWS should develop a low-cost customer communication plan to reduce the number of disconnections. In particular, CWS should place messaging in customers' bills and on its website explaining to customers the options that are available to them if they cannot pay their bills.

4) The Commission should authorize CWS to increase the surcharge for the low-income rate assistance program as necessary to continue to provide the benefit to qualifying customers

CWS states that it proposed to increase the surcharge to fund the low-income rate assistance ("LIRA") program.[70] DRA supports an increase in the surcharge to support the forecasted participation levels in the LIRA program.

C. DISCUSSION

1) a. WRAM/MCBA Should Ensure Ratepayers Do Not Bear the Full Burden of the Economic Downturn

When the Commission adopted the WRAM/MCBA decoupling mechanism for CWS, the concept of the mechanism was to ensure a proportional impact on the utility and ratepayers when CWS implemented conservation rates. DRA's settlement with CWS, adopted in D.08-02-036 states:

> "Parties agree that the desired outcome and purpose of using WRAMs and MCBAs is to ensure that the utility and ratepayers are proportionally affected when conservation rates are implemented.
>
> a. In the context of this agreement, a proportional impact means that, if consumption is over or under the forecasted level, the effect on either the utility or ratepayers (as a whole) should reflect that the costs or savings resulting from changes in consumption will be accounted for in a way such that neither the utility or ratepayers are harmed, or benefit, at the expense of the other party."[71]

Since it is too early to evaluate quantitative usage data on the impacts of the conservation rate designs,[72] it is difficult to determine how much sales have

[70] Report on the Results of Operation, July 1, 2009.

[71] Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues, p. 10, section X.2. Filed June 15, 2007, adopted in Decision 08-02-036.

[72] At the time CWS filed this GRC, there were only six months of usage data after implementation of the WRAM/MCBA and rate design Trial Programs, and CWS did not provide an analysis of this usage information to determine whether the utility and ratepayers are

(continued on next page)

decreased due to the effects of conservation oriented rates. But it is unreasonable to assume that all recorded decrease in sales was entirely due to conservation oriented rates and conservation programming, as it is certain that some portion of the decrease was due to the economic downturn and other factors. Yet, as a result of the WRAM/MCBA, ratepayers are currently bearing the full cost of the economic downturn. This issue must be addressed immediately. Therefore, until the impacts of conservation efforts can be better quantified, DRA recommends that the Commission modify the WRAM so that if there are reductions in consumption, rather than ratepayers being required to pay the full difference between the authorized quantity revenue and actual quantity revenue, ratepayers and shareholders split this difference equally. This will ensure that ratepayers and shareholders are proportionally affected under the WRAM/MCBA decoupling mechanism, when conservation rates are implemented in accordance with the settlement.[73]

This issue should be examined in the next GRC, when over three years of consumption information will be available after the implementation of the WRAM/MCBAs and conservation rates. However, it is clear at this time that the WRAM/MCBA mechanisms have led to an unintended consequence: the WRAM shields shareholders from all financial consequences of the severe economic downturn, while ratepayers bear the full cost of the economic downturn. This is an unintended consequence of the WRAM/MCBA trial program, not one of the goals of the program.[74]

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proportionally affected when conservation rates were implemented.

[73] Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues, p. 10, section X.2. Filed June 15, 2007, adopted in Decision 08-02-036.

[74] The goals of the WRAM/MCBA mechanism trial program were three-fold:

a)"Sever the relationship between sales and revenue to remove any disincentive for the utility to implement conservation rates and conservation programs

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While there is not currently a method available to apportion reductions in usage to each different cause – such as conservation and changes in economic conditions, it is clear that there are different factors that can affect water usage and each of them contribute to usage reductions. This is contrary to the WRAM/MCBA, which compensates CWS for all of the reductions in consumption, not just usage reductions from conservation. The Commission should modify the WRAM/MCBA mechanism so that it does not disproportionately disadvantage ratepayers compared to shareholders.

Further, the Commission specifically addressed the possible impact of a WRAM/MCBA for California American Water Company during an economic downturn in decision 08-06-002, p. 16, which stated:

> "One disparate impact that could occur in the Pilot Program period would be a severe economic downturn in one or more of the Los Angeles service areas that causes a significant decrease in revenues. This could occur from a high rate of home foreclosures and/or business slowdowns or shutdowns. We find this would clearly be a disparate impact as the WRAM mechanism would shield shareholders from all financial consequences of the economic downturn while requiring ratepayers to bear the full cost. Since Cal-Am will be tracking sales levels by customer class and service area, any disparate impact can be quickly seen and addressed."

CWS tracks sales levels by customer class and service area; and it is possible to calculate and graph changes in consumption in different classes and service areas. However, it is much more complex to determine or even speculate about the reasons for the changes in consumption. Especially because of the

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b)Ensure cost savings resulting from conservation are passed on to ratepayers.

c)Reduce overall water consumption by Cal Water ratepayers." (see the Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues, p. 8, section VI.1. Filed June 15, 2007, adopted in Decision 08-02-036).

significant economic downturn in recent years, that happens to coincide with implementation of increasing block rates, makes it difficult to draw conclusions about the reasons for any changing consumption patterns. Also, all CWS' districts under-collected revenue in the WRAM account during July – December 2008, except Bakersfield, King City, and Palos Verdes.[75] This is an indication that sales were lower than forecasted for almost all districts during this timeframe.

The WRAM should no longer require ratepayers to pay the full difference between the authorized quantity revenue and actual quantity revenue. The Commission should modify the WRAM/MCBA so that ratepayers and shareholders split this difference equally. This will ensure that ratepayers and shareholders are proportionally affected when conservation rates are implemented.

1) b. WRAM/MCBA Sur-credits Should Be a Flat Amount Applied to the Service Charge

When there is a combined under-collection in the WRAM/MCBA, this should be recovered from ratepayers through volumetric surcharges, in accordance with Decision 08-02-036. This maintains the conservation price signals of the surcharge because customers who use more water pay a larger portion of the surcharge. However, when there is a combined over-collection in the WRAM/MCBA, this should be passed on to ratepayers through a flat surcredit on the service charge. This change to the surcredit mechanism will ensure that water-conserving customers who use less water do not receive less surcredit than customers who use large quantities of water. Furthermore, this will also enhance the conservation price signal.

This recommendation is important in light of the first six months of WRAM/MCBA and Rate Design Trial Program implementation where the over and under-collections in the net balance of the WRAM/MCBA typically were far

[75] CWS WRAM/MCBA report to the Division of Water and Audits, March 2009

greater than the 2.5%[76] trigger. In fact these balances were 10% or greater in seven districts, and were between 5% and 10% in another seven districts.[77]

2) Not Yet Enough Data to Determine Impacts of Conservation Rate Designs

DRA and CWS reached a settlement agreement on rate design and revenue decoupling on April 23, 2007, and amended the settlement on June 15, 2007. The Commission ultimately adopted the settlement on February 28, 2008 in decision 08-02-036, and CWS had 90 days after the Commission decision adopting the settlement before the Trial Program became effective. CWS implemented the Trial Program, including the WRAM/MCBAs and conservation rate designs, via Advice Letter 1855, which became effective on July 1, 2008. CWS filed this GRC application in July 2009, and included data through December 2008. Thus, this GRC contains six months of consumption data after CWS implemented the WRAM/MCBA mechanisms. Six months of consumption data is not long enough to draw conclusions about the impacts of the conservation rate designs.[78]

3) CWS should track low income disconnections on a monthly basis and provide this information in its annual report to the Commission on the WRAM/MCBA balances

Ordering Paragraph 6 from the Phase 1A Decision 08-02-036 from the conservation OII (I.07-01-022) ("OP6") requires CWS to provide data related to the implementation of the conservation rate design trial programs. Specifically, OP6 states:

> "6. Suburban, Park, and Cal Water shall provide the following information in their next general rate case: monthly or bimonthly (depending upon the billing

[76] The trigger is "2.5% of the district's total recorded revenue requirement for the prior calendar year" (see Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues, Section IX 3) d., Filed June 15, 2007, adopted in Decision 08-02-036.

[77] See CWS WRAM/MCBA report to the Division of Water and Audits, March 2009.

[78] See Special Request #11 for further discussion.

cycle) … increase or decrease in disconnecting low-income program participants for nonpayment by district after adoption of conservation rate designs; increase or decrease in low-income program participation by district after adoption of conservation rate designs; increase or decrease in residential disconnections for nonpayment by district after adoption of conservation rate designs…."

In this GRC application, CWS provided some of the information required in this Ordering Paragraph.[79] In particular, CWS provided information on customer disconnections for both residential and LIRA customer groups for the firs six months of Trial Program implementation between July 1, 2008 and December 31, 2008. However, this data incorrectly "double-counted" low income customer disconnections.[80] CWS provided corrected data for July 2008 through July 2009. However, CWS did not yet provide information about customer disconnections prior to July 2008.[81] In order for the Commission to assess the "increase or decrease" in low-income disconnections when CWS implemented the conservation rate design and WRAM/MCBA Trial Programs, pursuant to the above Ordering Paragraph, data on customer disconnections from before and after the implementation of the conservation rate designs must be compared. Since CWS only provided information from after the implementation of conservation

[79] Prepared Testimony of David Morse, p. 28 – 31.

[80] Email from CWS (Tu Rash), on 1/13/2010, states regarding the query Cal Water originally ran for Dave Morse "in effect that query double counted the number of LIRA customers."

[81] DRA requested information on residential and LIRA customer disconnections from July 2007 through July 2009 in LWA-5 on 12/22/09, and CWS provided an initial response on 12/31/09, but it did not correspond to the numbers in David Morse' testimony, so CWS provided a revised response on 1/5/2010, but this still did not correspond to the numbers in David Morse' testimony. CWS provided a further revised response on 1/13/2010, but this only provided data from 2008-2009. At the time DRA had to finalize this testimony, it had not yet received final numbers for residential and LIRA customer disconnections from July 2007 through 2009, although DRA is confident CWS would have provided the information to comply with this ordering paragraph had there been unlimited time.

rate designs, this is not in compliance with OP 6. DRA believes CWS intended to provide the correct information and CWS should provide this information in its rebuttal testimony so that the Commission can consider it in this proceeding.

On a going forward basis, the Commission should require CWS to continue to track the number of residential and LIRA customer disconnections per month and report this information in the annual report that CWS submits to the Commission by March 31 each year regarding WRAM/MCBA balances.[82] If the number of disconnections has increased, CWS should develop and implement a low-cost customer communication plan to reduce the number of disconnections. In particular, CWS should place messaging on customer bills and on CWS' website explaining to customers the options that are available to them if they cannot pay their bills. For example, PG&E has a message on its website that says:

> "We Know Times Are Tough.
> If you or someone you know is having trouble paying your bill, we can help. Please call us today at 1-800-743-5000 so we can discuss program options and payment arrangements that work for you."[83]

Another example is San Diego Gas and Electric Company, which has messaging on its website that provides a rotational link to "Need Extra Help With Your Bill? Learn about available assistance" and "Get extra help with your bill."[84]

4) The Commission should authorize CWS to increase the surcharge for the low-income rate assistance program as necessary to continue the benefit for qualifying customers

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[82] Pursuant to "Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues," section IX 3), Filed June 15, 2007, adopted in Decision 08-02-036.

[83] http://www.pge.com/myhome/ (accessed 1/28/2010).

[84] http://www.sdge.com/index/ (accessed 1/28/2010).

CWS states that it proposed to increase the surcharge to fund the low-income rate assistance ("LIRA") program.[85] The Commission authorized the LIRA program in D.06-11-053, and it provides a 50% discount on the service charge to qualifying households. DRA supports the continuation of the LIRA program as authorized in D.06-11-053. To the extent that an increase in the surcharge is necessary to support the LIRA program at forecasted participation levels, the Commission should authorize the increase in the surcharge. DRA notes that this surcharge is combined with the surcharge for the Rate Support Fund ("RSF") and that CWS' requested increase from $0.009 to $0.015 per ccf[86] also includes the additional funding to support CWS' increases in the RSF subsidies. For this reason, the required increase in the surcharge to support only the LIRA program should be lower than $0.015 per ccf and should be calculated based upon the final revenue requirement in this case as well as the adopted rate of participation in the LIRA program.

D. CONCLUSION

The Commission should adopt the recommendations on rate design and revenue decoupling included in this chapter.

[85] Report on the Results of Operation, July 1, 2009, Chapter 12 "Present and Requested Tariffs" states that customers pay a surcharge of $0.009 per Ccf to fund the program and that CWS proposes to increase the surcharge to $0.015 per Ccf.

[86] Additional Prepared Testimony of Thomas Smegal, Special Request 11, p. 15, lines 21-22.

CHAPTER 12: WATER QUALITY

A. INTRODUCTION

The Rate Case Plan requires water utilities to submit information about water quality in their GRC applications. This Chapter presents DRA's review of water quality submittals by California Water Service Company ("CWS") for the Los Altos District and CWS' response to DRA's data request.

The California Department of Public Health ("CDPH") is the primary agency responsible for ensuring that the water provided to the public by the District is safe for consumption. DRA reviewed the most recent CDPH inspection report, the District's response to the report, and the CDPH's response to DRA's inquiry on the District's water quality issues and compliance status.

B. SUMMARY OF RECOMMENDATIONS

Based upon the information provided by the company and by the CDPH, CWS' Los Altos District appears to be in compliance with all applicable water quality standards and requirements. Exceptions if any are noted below.

C. DISCUSSION

About one-fourth of the District's water supply requirement comes from its 20 active groundwater wells. The balance is met by treated water purchases from the Santa Clara Valley Water District ("SCVWD") and the San Jose Water Company. The District has not exceeded any primary or secondary Maximum Contaminant Levels ("MCLs") since its last general rate review. Water quality issues in this District include disinfection, nitrate, iron, manganese and storage tank nitrification.

Disinfection – Six of the active wells have chloramination facilities, while the remaining wells are without disinfection and have to be blended with water

purchased from SCVWD. The CDPH recommends that CWS install chloramination facilities at all well stations to ensure adequate disinfection of its water supply.[87]

Nitrate – CWS reports that five of the District's active wells have elevated nitrate levels. The levels are still below MCL and no treatment is currently being proposed.

Iron and Manganese – According to the CDPH, CWS needs to consider treatment options for Well 29-01 and Well 123-01 which have high iron and manganese levels (exceeding the MCLs).[88] These two wells are currently not in use. CWS reports that for Well 29-01 it is currently assessing the feasibility of well amendment options including a reduced rate of pumping and lining the casing of the well to prevent further corrosion.[89] For Well 123-01, CWS is developing an operational sequence to operate the well within compliance standards.[90]

Nitrification – The District has 46 tanks, 18 of which serve as collecting basins and the remaining 28 float on the system. CWS reports that nitrification of storage tanks is being addressed by unidirectional flushing, management and monitoring of tank turnover.

The CDPH conducted a system sanitary inspection and issued its findings in a report dated October 23, 2008. In CWS' response letter dated November 24, 2008, CWS states that it has addressed some of the noted deficiencies and requested an extension to allow the District to comply with all the provisions

[87] December 3, 2009 email communications from Eric Lacy of the CDPH to DRA.
[88] Ibid.
[89] CWS' response to DRA's data request PPM-001, Item 7.b.ii.
[90] Ibid.

specified by CDPH. In response to DRA's inquiry, the CDPH confirms that the District is in compliance with all applicable water standards.[91]

D. CONCLUSION

Based on the information received, it appears that CWS' Los Altos District is in compliance with all applicable water quality standards and requirements and is addressing issues raised by the CDPH.

[91] December 3, 2009 email communications from Eric Lacy of the CDPH to DRA.

CHAPTER 13: STEP RATE INCREASE

A. FIRST ESCALATION YEAR

On or after November 1, 2011, the Commission shall authorize CWS to file a Tier 1 advice letter, with appropriate supporting workpapers, requesting the step rate increase for 2012 or to file a lesser increase in the event that the rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 2011, exceeds the lesser of (a) the rate of return found reasonable by the Commission for CWS for the corresponding period in the most recent rate decision or (b) the rate of return found reasonable in this case. This filing should comply with General Order 96-B.

The Commission's Water Division ("Water Division") should review the requested step rates to determine their conformity with this order, and the requested step rates should go into effect upon the Water Division's determination of compliance. The Water Division should inform the Commission if it finds that the proposed rates do not comply with this Decision. The Commission may then modify the increase. The effective date of the revised tariff schedule should be no earlier than January 1, 2012. The revised schedules should apply to service rendered on and after their effective date. Should a rate decrease be in order, the rates should become effective on the filing date.

B. SECOND ESCALATION YEAR

For the second year, the Commission should grant an attrition adjustment for the revenue requirement increases attributable to expense increases due to inflation and rate base increases that are not offset by revenue increases. The revenue changes shall be calculated by multiplying forecasted inflation rate and operational attrition plus financial attrition times adopted rate base in 2012 times the net-to-gross multiplier.

C. ESCALATION YEARS INCREASES

The table below shows the Summaries of Earnings for Escalation Years 2012 and 2013. To obtain the increases in these years, D. 04-06-018 and D. 07-05-062 require water utilities to file an Advice Letter 45 days prior to the start of the year showing all calculations supporting their requested increases.

The revenues shown in Table 13-1 are for illustration purposes and the actual increases would be authorized only after approval of the utility's advice letter.

TABLE 13-1

SUMMARY OF EARNINGS

CALIFORNIA WATER SERVICE COMPANY
LOS ALTOS-SUBURBAN DISTRICT

Item	DRA 2011 (Thousands of $)	DRA 2012	% increase	
Operating revenues	23,029.6	23,506.2	2.1%	Esc. Factor
Operation & Maintenance	13,222.2	13,566.0	2.6%	1.026
Administrative & General	1,332.0	1,364.0	2.4%	1.024
G.O. Prorated Expense	2,353.8	2,415.0	2.6%	1.026
Depreciation & Amortization	1,544.7	1,584.9	2.6%	1.026
Taxes other than income	784.9	805.3	2.6%	1.026
State Corp. Franchise Tax	237.4	235.6	-0.8%	
Federal Income Tax	940.9	934.4	-0.7%	
Total operating expenses	20,416.0	20,905.2	2.4%	
Net operating revenue	2,613.6	2,601.0	-0.5%	
Rate base	30,461.5	30,314.6	-0.5%	
Return on rate base	8.58%	8.58%	0.0%	